THE STATE OF
DIGITAL TRANSFORMATION

2018-2019 edition

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EXECUTIVE SUMMARY

Now in its fifth year, our annual "State of Digital Transformation" research continues to document the constantly evolving enterprise. As disruptive technologies and their impact on organizations and markets continue to progress, our research aims to capture the shifts and trends that are shaping modern digital transformation.

In 2018, strategic digital transformation is only becoming more pervasive moving beyond IT to impact competitiveness throughout the organization. Budgets are soaring. The list of disruptive technologies on the radar of stakeholders is expanding. Ownership is moving to the C-Suite and managed by cross-functional, collaborative groups. Customer experience (CX) continues to lead digital transformation investments, but as we observed in 2017, employee experience and organizational culture are also rising in importance to empower and accelerate change, growth, and innovation.

This year, it's clear that digital transformation is maturing into an enterprise-wide movement. Digital transformation is modernizing how companies work and compete and helping them effectively adapt and grow in an evolving digital economy. What's also evident is that there is still much work to do as companies are, by and large, prioritizing technology over grasping the disruptive trends that are influencing markets and, more specifically, customer and employee behaviors and expectations.
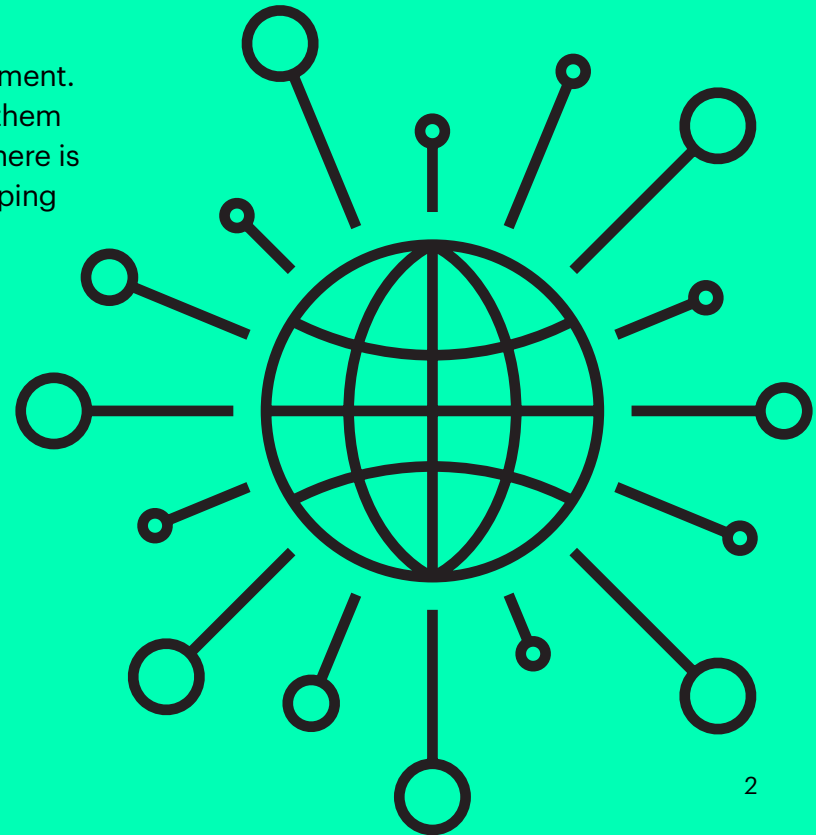
REPORT HIGHLIGHTS

- A successful digital transformation is an enterprise-wide effort that is best served by a leader with broad organizational purview. For the second year in a row, CIOs are reported as most often owning or sponsoring digital transformation initiatives (28%), with CEOs increasingly playing a leadership role (23%).

- Market pressures are the leading drivers of digital transformation as most efforts are spurred by growth opportunities (51%) and increased competitive pressure (41%). With high-profile data breach scandals making daily headlines, new regulatory standards like GDPR are also providing impetus for organizations to transform (38%).

- While there is a growing acknowledgment of the importance of human factors in digital transformation – like employee experience and organizational culture – most transformation efforts continue to focus on modernizing customer touchpoints (54%) and enabling infrastructure (45%). But many organizations are not doing their due diligence when it comes to understanding their customers, with 41% of companies making investments in digital transformation without the guidance of thorough customer research.

- Organizational buy-in remains a top challenge for those leading digital transformation. The companies we studied report digital transformation is still often perceived as a cost center (28%), and data to prove ROI is hard to come by (29%). Cultural issues also pose notable difficulty, with entrenched viewpoints, resistance to change (26%), and legal and compliance concerns (26%) stymieing progress.

- Innovation is staking its claim within the organization. Nearly half of respondents report that they are building a culture of innovation, with in-house innovation teams becoming the norm.
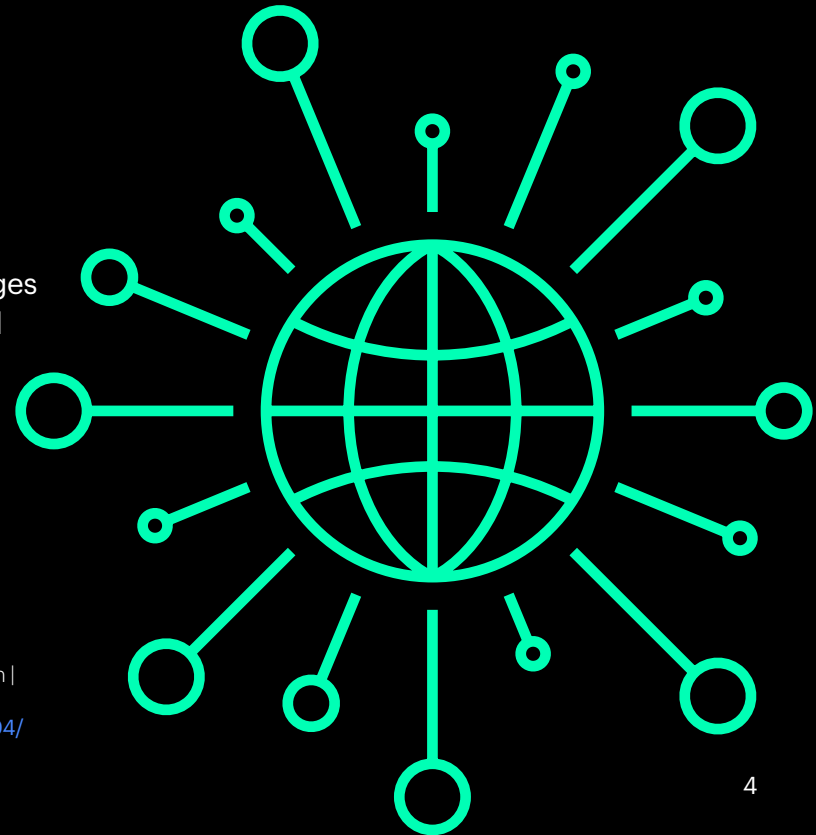
DEFINING DIGITAL TRANSFORMATION AND THE SIX STAGES OF DIGITAL TRANSFORMATION

As our parent company Prophet observed in its report The Evolved Enterprise, "the purpose of digital transformation is not to become more digital. It's to generate growth."[1] That's why we believe digital change and innovation goes beyond IT. Digital, in fact, is becoming a Trojan Horse for total business transformation—from changing how the C-Suite operates to transforming each strategic business function, the back-office units, and everything in between.

As digital transformation evolves into total business transformation, so does how we define it. Based on extensive interviews and our annual market survey, this year we've updated the definition of digital transformation to acknowledge its holistic goals:

> *Digital transformation is the evolving pursuit of innovative and agile business and operational models — fueled by evolving technologies, processes, analytics, and talent capabilities — to create new value and experiences for customers, employees, and stakeholders.*

To help companies understand where they are — and where they need to be — on the road to digital transformation as we define it, in 2016, Altimeter identified "The Six Stages of Digital Transformation".[2] After years of talking to executives who were driving digital efforts and of studying companies in their journey to transformation, we identified a series of patterns, components, and processes that form a strong foundation for change. We organized them into these six distinct stages:

[1] Suh, Chan, Tony Fross, Mat Zucker, Nicholas Carrier, Michael Welch, and Kevin Grubb. "The Evolved Enterprise: Unlocking Growth | Digital Transformation." Prophet. https://www.prophet.com/report/evolved-enterprise/.
[2] Solis, Brian. "The Six Stages of Digital Transformation." Altimeter, a Prophet Company. https://www.prophet.com/2016/04/the-six-stages-of-digital-transformation/.

THE SIX STAGES OF DIGITAL TRANSFORMATION
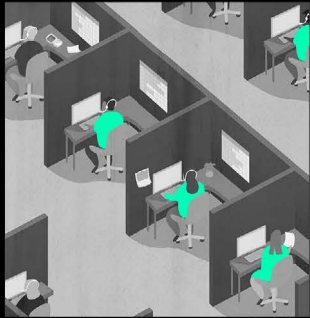
BUSINESS AS USUAL

Organizations operate with a familiar legacy perspective of customers, processes, metrics, business models, and technology, believing that it remains the solution to digital relevance.

PRESENT AND ACTIVE

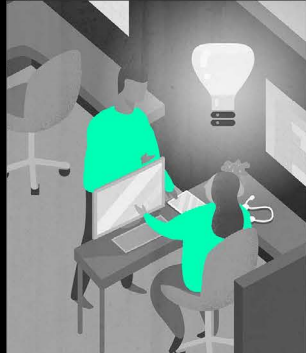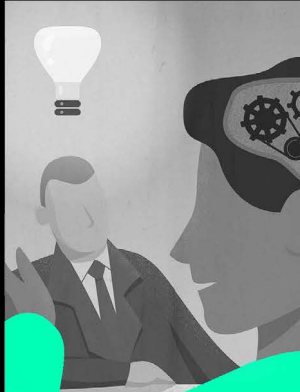Pockets of experimentation are driving digital literacy and creativity, throughout the organization while aiming to improve and amplify specific touchpoints and processes.

FORMALIZED

Experimentation becomes intentional while executing at more promising and capable levels. Initiatives become bolder and, as a result, change agents seek executive support for new resources and technology.

STRATEGIC

Individual groups recognize the strength in collaboration as their research, work, and shared insights contribute to new strategic roadmaps that plan digital transformation ownership, efforts, and investments.

CONVERGED

A dedicated digital transformation team forms to guide strategy and operations based on business and customer-centric goals. The new infrastructure of the organization takes shape as roles, expertise, models, processes, and systems to support transformation are solidified.

INNOVATIVE AND ADAPTIVE

Digital transformation becomes a way of business as executives and strategists recognize that change is constant. A new ecosystem is established to identify and act upon technology and market trends in pilot and, eventually, at scale.

Collectively, these six stages serve as a digital maturity blueprint to guide purposeful and advantageous digital transformation. Our research of digital transformation is centered on the digital customer experience (DCX) and, therefore, reflects only one of many paths toward change. We found that, in addition to technology changes and other market pressures, DCX is one of the most important catalysts driving the evolution of business.

DIGITAL TRANSFORMATION IS EXTENDING WELL BEYOND ITS ROOTS TO RESHAPE BUSINESSES HOLISTICALLY

Although digital transformation efforts have traditionally been focused on IT, every facet of the organization is in dire need of transformation to compete in an ever-evolving digital economy. While IT continues to be an important part of digital transformation (62% of companies report focusing their efforts in this area), our research indicates that technology, operations, and performance modernization efforts are beginning a necessary proliferation across the organization.

In fact, digital transformation is extending well beyond its roots to reshape businesses holistically. Eighty-five percent of companies we surveyed reported that their digital transformation efforts have expanded beyond IT into organization-wide initiatives. This is promising as it means a significant number of companies are moving deeper into the six stages of digital transformation.

FIG 1: AREAS OF FOCUS FOR DIGITAL TRANSFORMATION
Q: In which areas is digital transformation focused? Choose three.

Area	Percentage
IT	62%
Customer Service/Support	34%
Operations	30%
Innovation	27%
Sales	24%
Marketing / Advertising	20%
Finance	17%
C-Suite	16%
Supply Chain	16%
R&D	15%
HR	15%
CRM	14%
Legal	9%
Other	1%
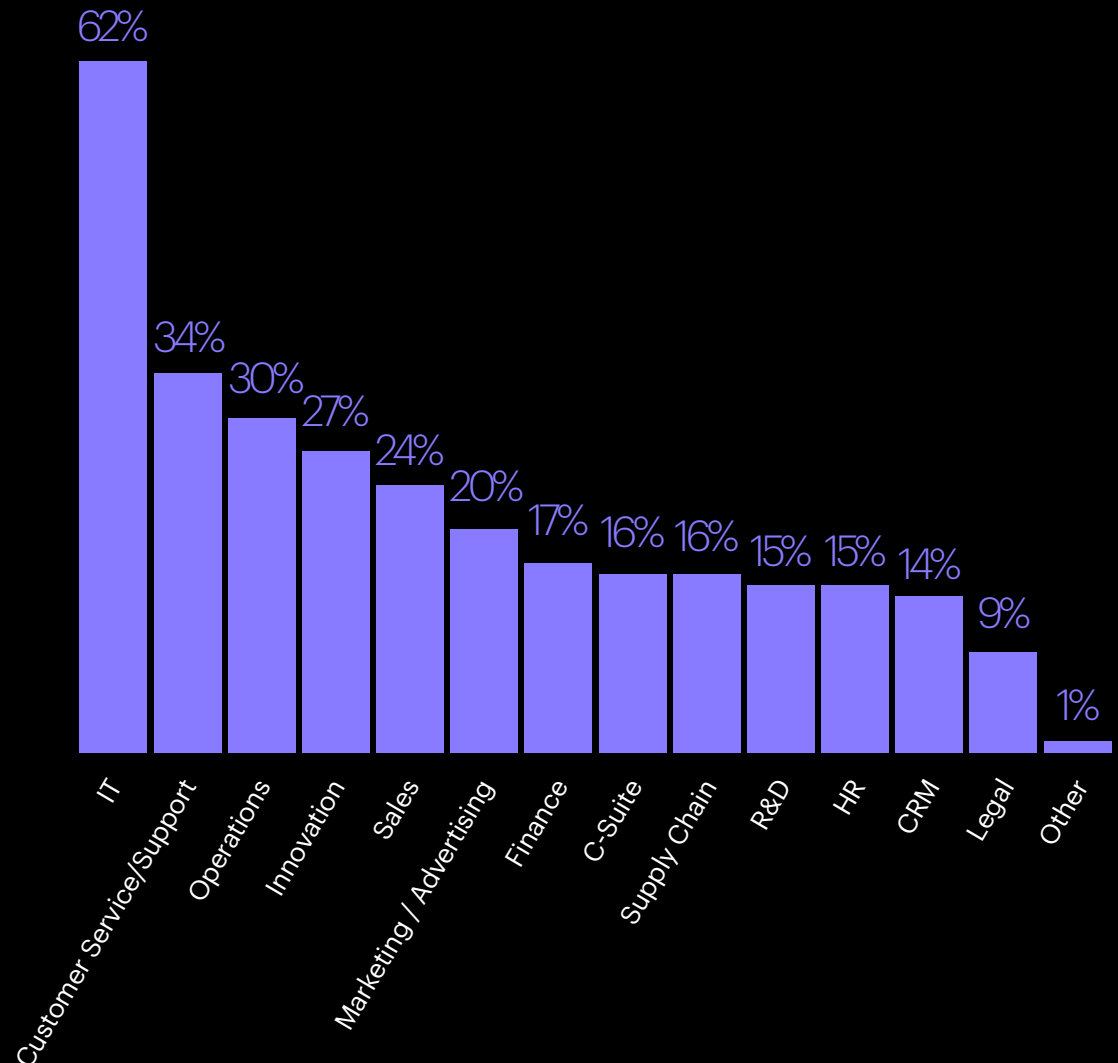
Source: Altimeter Digital Transformation Survey, Q3 2018; Base: N=554

The companies that said their digital transformation efforts are focused on specific business units or disciplines (15%) are typically in the early stages of digital transformation. In these companies, resources are concentrated on one unit of the organization — either on its own or as an executive-sponsored effort — that is undergoing transformation based on a specific goal.
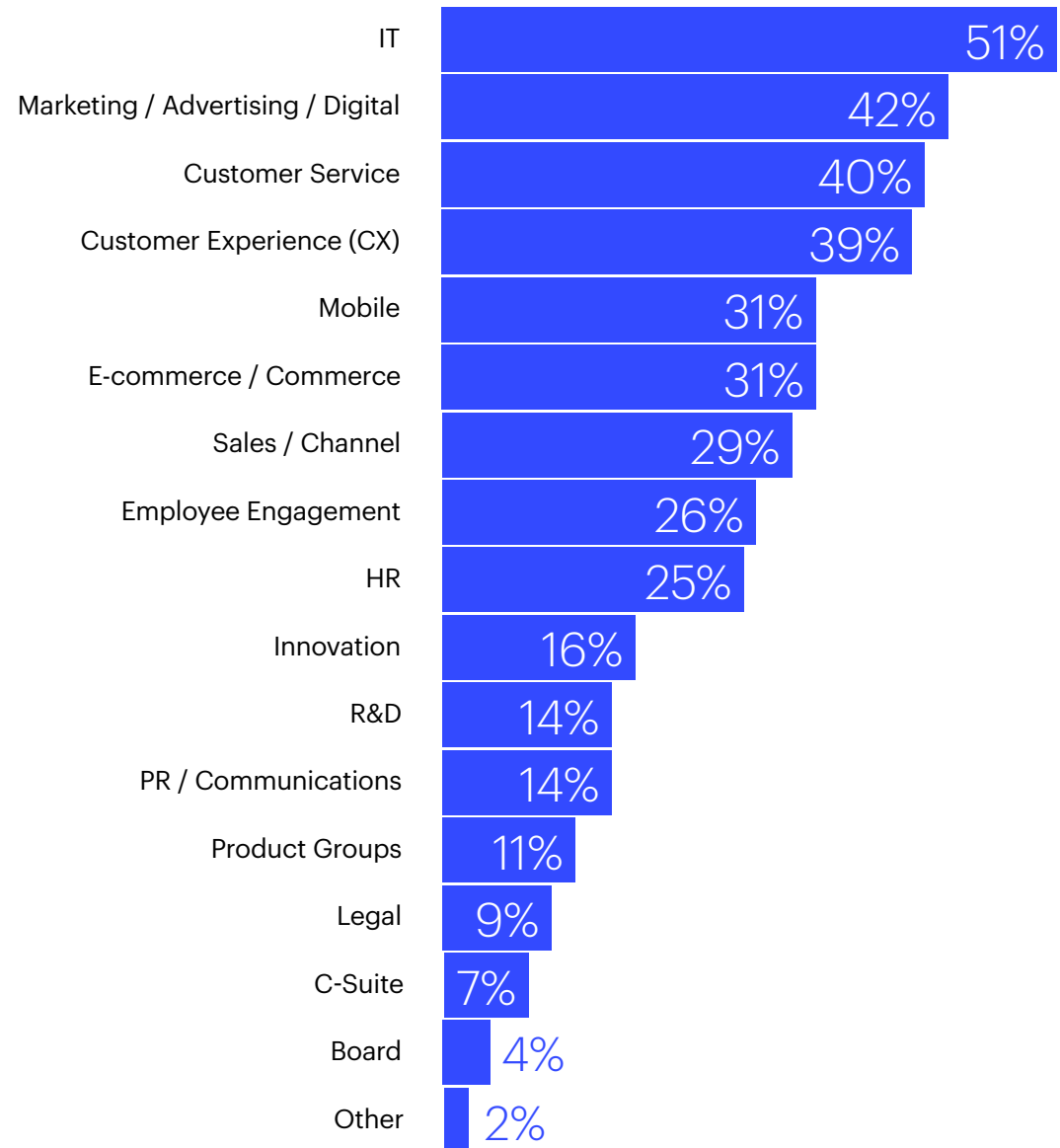
The breakdown of the units undergoing digital transformation in these companies is historically typical. The digital transformation journey usually begins with a technology-first mindset: Fifty-one percent of these companies are aiming their digital transformation investments at modernizing IT infrastructure and technologies (e.g. cloud, collaboration, communication, security, mobile). In these cases, CIOs lead an initiative to improve aging technology infrastructure. Forty-two percent of them are upgrading marketing, advertising and digital capabilities. CMOs of these digitally transforming units are updating customer-facing top of funnel touchpoints and connecting digitally to bottom of funnel sales forces and channel partners. Other business units undergoing digital transformation involved those aiming to modernize other key touchpoints in the customer journey focusing specifically on customer service and CX (40% and 39% respectively).

Digital transformation is about modernizing the sum of the organization's critical parts by investing in modernizing the parts (the business units and functions) themselves. It's a shift from an ownership tug-of-war between marketing and IT to a distributed balance and collaboration across the organization. What's clear today versus years past is that digital transformation is maturing into a movement of total business modernization.

FIG 2: BUSINESS UNIT-LEVEL DIGITAL TRANSFORMATION EFFORTS

Q: If only certain business units within your organization are undergoing digital transformation efforts, what are those units?

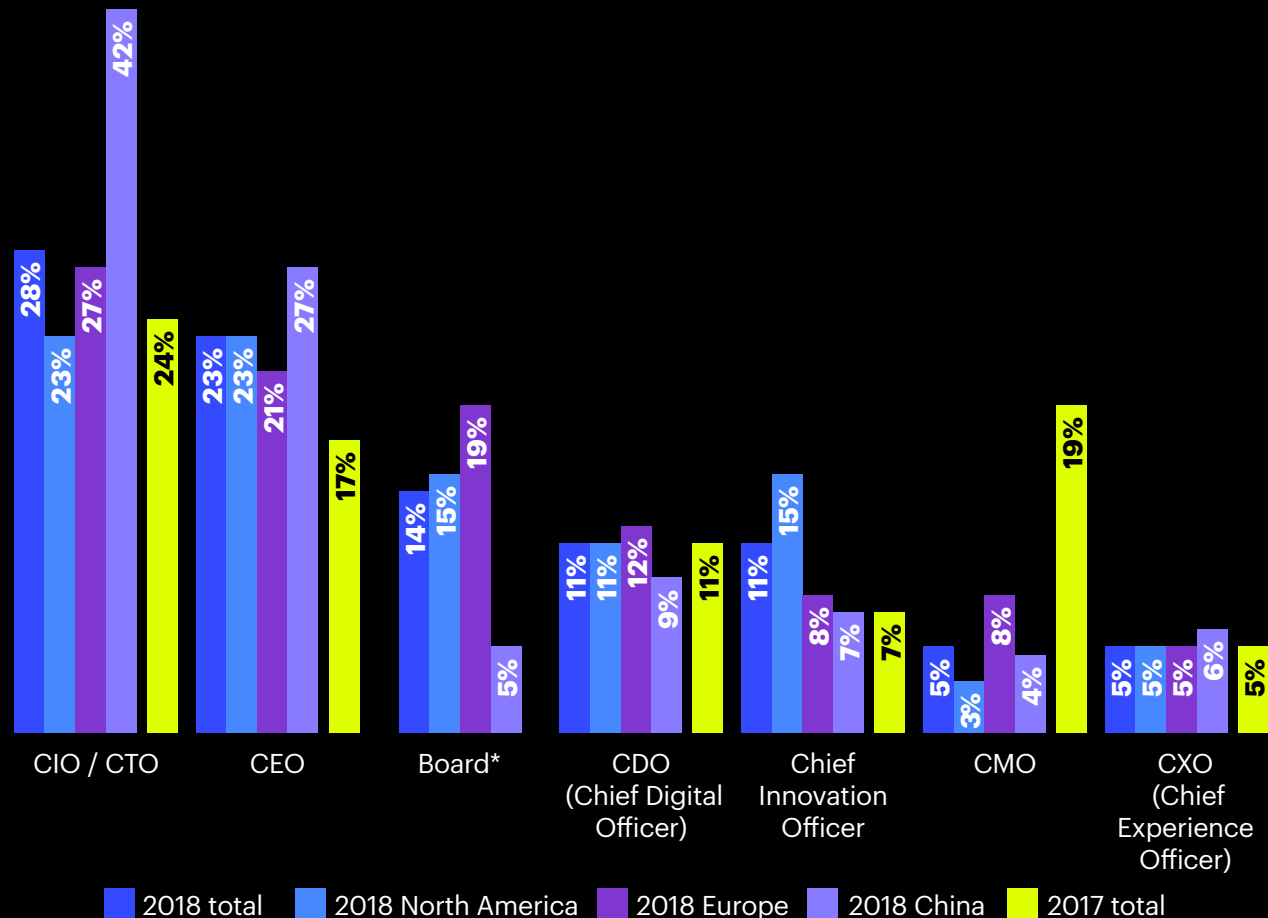| Business Unit	Percentage
IT	51%
Marketing / Advertising / Digital	42%
Customer Service	40%
Customer Experience (CX)	39%
Mobile	31%
E-commerce / Commerce	31%
Sales / Channel	29%
Employee Engagement	26%
HR	25%
Innovation	16%
R&D	14%
PR / Communications	14%
Product Groups	11%
Legal	9%
C-Suite	7%
Board	4%
Other	2%

Source: Altimeter Digital Transformation Survey, Q3 2018; Base: N=85

CIOS AND EXECUTIVES WHO POSSESS A BROADER ORGANIZATIONAL PURVIEW ARE INCREASINGLY LEADING ENTERPRISE-WIDE DIGITAL TRANSFORMATION

Since successful digital transformation is an enterprise-wide, cross functional effort, it is increasingly owned by executives who possess a broader organizational purview. For the second year in a row, CIOs are cited as the most typical official owners or sponsors of transformation initiatives (28%). As they take on this role more and more frequently, CIOs are becoming business partners to key stakeholders to facilitate digital investments and change across the organization. Up 35% this year, CEOs are notably taking a more proactive role in digital transformation leadership as well (23%). Boards are also becoming more prominent sponsors of digital transformation (14%), which represents a new addition to the report. We didn't include "boards" in the year prior. The notable presence of boards represents an encouraging sign given that they are notorious for holding back digital transformation efforts, perceiving them as cost centers that divert resources away from share and stake-holder value. While still low, the increased involvement of CEOs and boards in the leadership of digital transformation sends an important message to executives tracking the best practices of their peers.

FIG 3: EXECUTIVE OWNERSHIP OF DIGITAL TRANSFORMATION

Q: Which executive officially owns or sponsors the formal digital transformation initiative?

Legend: 2018 total | 2018 North America | 2018 Europe | 2018 China | 2017 total

	CIO / CTO	CEO	Board*	CDO (Chief Digital Officer)	Chief Innovation Officer	CMO	CXO (Chief Experience Officer)
2018 total	28%	23%	14%	11%	11%	5%	5%
2018 North America	23%	23%	15%	11%	15%	3%	5%
2018 Europe	27%	21%	19%	12%	8%	8%	5%
2018 China	42%	27%	5%	9%	7%	4%	6%
2017 total	24%	17%		11%	7%	19%	5%

Source: Altimeter Digital Transformation Survey, Q3 2018; Base: North America N=273, Europe N=172, China N=109
Source: Altimeter Digital Transformation Survey, Q2 2017; Base: N=528
*"Board" is a new addition in 2018; the 2017 data shown here has been normalized to account for this addition.

The role of Chief Innovation Officer as executive sponsors of digital transformation is also on the rise, swelling by 64% since last year. Both the Chief Innovation Officer and Chief Digital Officer own digital transformation at 11% of reporting companies. This indicates that the roles are combining over time as digital becomes the new norm and as innovation becomes a priority in business transformation. The historical tug-of-war between CIOs and CMOs, the two early adopters and leaders of digital transformation, seems to be over. This year we saw a noteworthy drop (-77%) in marketing's executive leadership of enterprise-wide digital transformation efforts (5%). But, this does not mean that CMOs are losing stature in digital transformation leadership.

Their attention is instead focused more specifically on the digital transformation of the marketing function, modernizing it for CX, for sales force collaboration, and for direct-drive revenue. In the past, marketing was a logical starting place for digital transformation efforts, as CMOs aimed to update how companies engage customers and modernize customer touchpoints. Now that mission is even more critical. New devices, apps and on-demand services are driving new customer behaviors and expectations. At the same time, mobile, big data, AI, machine learning, digital influence, et al represent enablers for innovation beyond marketing, expanding the role of CMOs to now include customer engagement, experience, loyalty and lifetime value.

DIGITAL TRANSFORMATION COMMITTEES ARE EARNING FORMAL EXECUTIVE SUPPORT AND ARE BECOMING LARGER AND MORE CROSS-FUNCTIONAL

Steering committees take shape and evolve as the company's digital transformation matures. These groups are responsible for managing the digital transformation effort and ensuring cross-functional collaboration. As they mature, so does the scope and strategic nature of the digital transformation initiatives they oversee. The larger percentage of companies that report operating with a formal steering committee – as well as the size and makeup of these steering committees – suggests that enterprise-wide digital transformation is approaching the tipping point where "digital" becomes the new "business as usual."

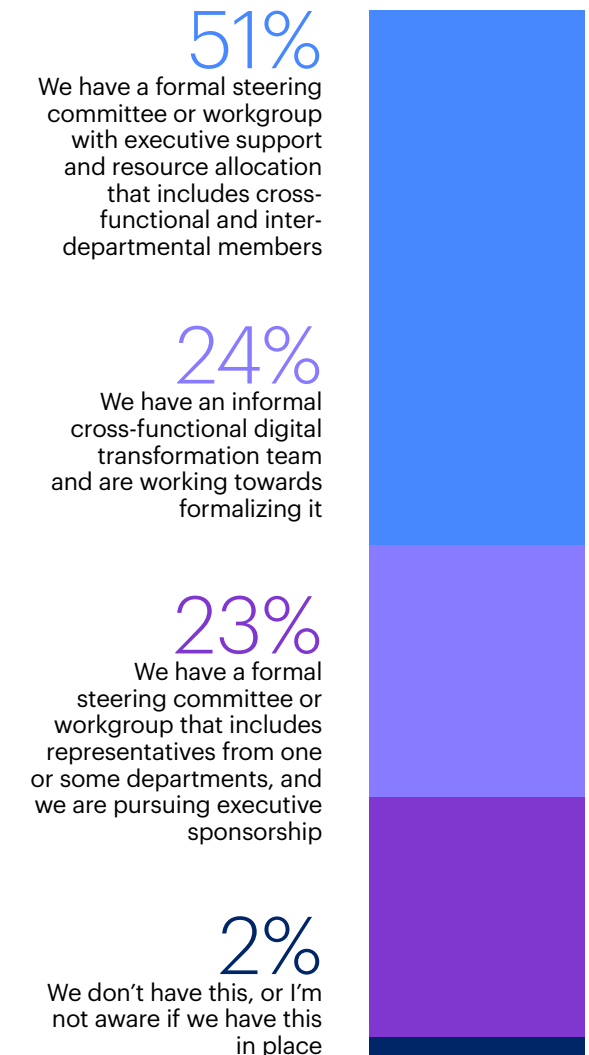## Formal vs. Informal Committees

More than half of the companies we surveyed (51%) have steering committees that have earned executive support and

resource allocation. These committees include cross-functional and inter-departmental members and are essential to driving meaningful change across the enterprise. That number is up by 27% over 2017 — an extremely promising development that suggests digital transformation maturity is finally taking root.

Of the remaining companies, 23% of them reported establishing a formal cross-functional digital transformation team that is pursuing executive sponsorship. Only 24% of companies reported that they have an informal cross-functional team but are working toward formalizing it. This is down from 59% the year before. If this pattern holds up, it's likely that these companies will not only seek executive sponsorship, but also earn it as digital transformation increasingly becomes a top-down objective.

FIG 4A: Digital transformation steering committees and workgroups

Q: How would you describe your organization's digital transformation steering committee or formal workgroup?

51%
We have a formal steering committee or workgroup with executive support and resource allocation that includes cross-functional and inter-departmental members

24%
We have an informal cross-functional digital transformation team and are working towards formalizing it

23%
We have a formal steering committee or workgroup that includes representatives from one or some departments, and we are pursuing executive sponsorship

2%
We don't have this, or I'm not aware if we have this in place

Source: Altimeter Digital Transformation Survey, Q3 2018; Base: N=554

Size of Committees Is Growing

The size of digital transformation steering committees at the companies we surveyed is another indicator of how pervasive these transformation efforts have become. This year, the vast majority of cross-functional committees (48%) are staffed by eight or more full-time employees, which is up by 140% over 2017. Notably, other companies reported teams of four-to-five and six-to-seven full-time members (25% each), which is down 40% and 35% respectively year-over-year. Team sizes are trending higher as digital transformation becomes a holistic business endeavor.

Makeup of Cross-functional Committees Is Becoming More Diverse

The cross-functional make-up of these committees are by and large technical, with 76% of companies reporting IT played a role in theirs. This is digital transformation, after all, and technology is foundational to almost every aspect of modernization. In our interviews with executives, we consistently heard that IT must be involved in all initiatives – regardless of the specific focus or goal of those initiatives.

This year, we also saw some players taking increased roles over last year. Human Resources, for instance, is becoming more

FIG 4B: DIGITAL TRANSFORMATION STEERING COMMITTEE TEAM SIZE

Q: How many full-time employees are involved in the digital transformation steering committee, workgroup or cross-functional team?

2%
2-3

25%
4-5

48%
8 or more

25%
6-7
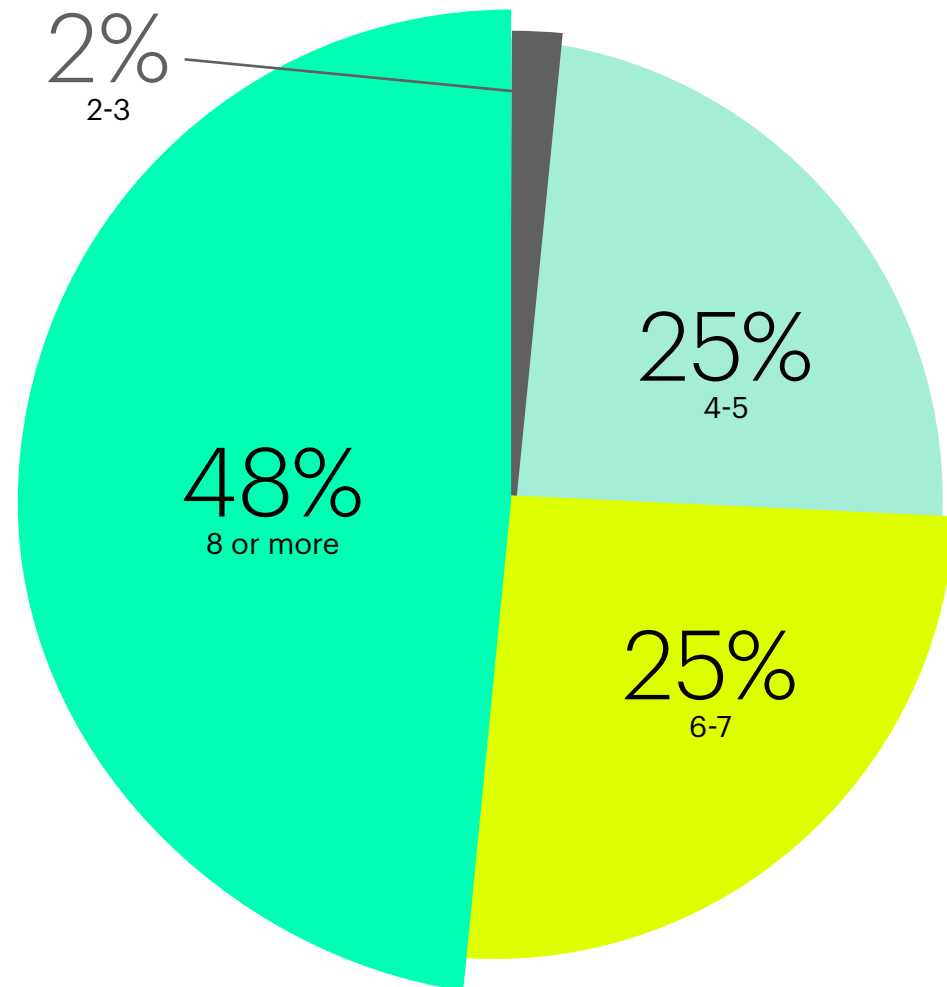
involved in affecting enterprise-wide digital transformation, showing a huge spike (300% over last year) in their participation in cross-functional committees. This spike is most likely due to the rising importance of employee experience (EX) — surfacing alongside CX — as a key area of focus for digital transformation. Also linked to CX, initiatives focusing on sales/channels are staking a claim in digital transformation, being represented in 32% of cross-functional committees (a jump of 115% over last year).

Another notable finding this year: a substantial decrease in the representation of marketing departments in these steering committees (-51%). This may be an indicator, ironically, of marketing's relative digital maturity. Marketing, specifically digital marketing, served as a primary internal transformer dating back to the early days of DT.

Customer experience continues to serve as a primary catalyst for digital acceleration and maturity. As a result, elite CMOs are shifting the role of marketing to create a business growth engine focused on CX, performance and innovation. This may reduce the current need to participate in organization-wide efforts. In due time, however, this valuable front-line experience and expertise will place marketing back in a leadership position as organizations increasingly place customers at the center of their digital transformation initiatives.

FIG 4C: DEPARTMENTS REPRESENTED IN THE DIGITAL TRANSFORMATION STEERING COMMITTEE

Q: *What departments are represented in the digital transformation steering committee, workgroup or cross-functional team?*
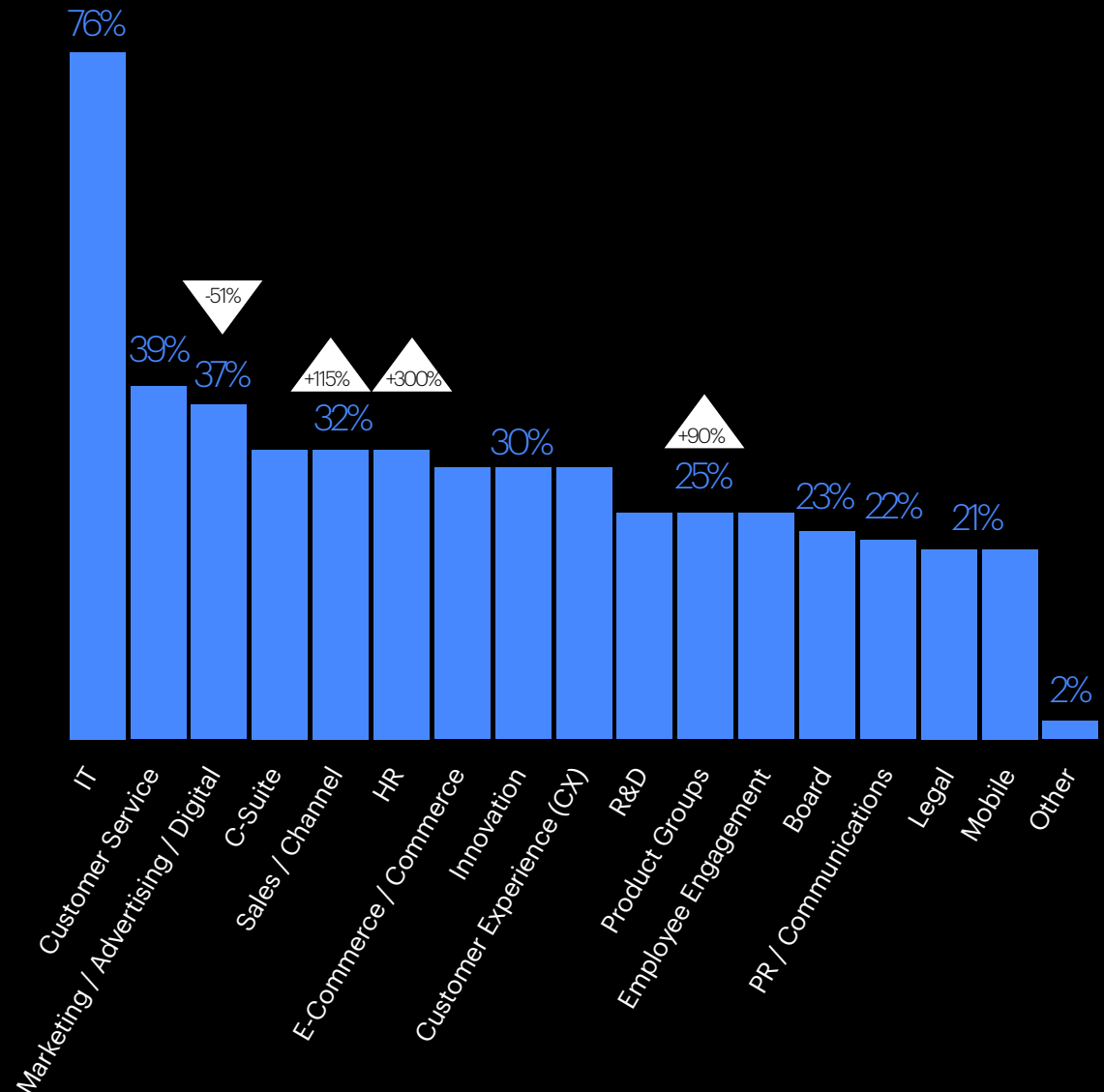
Source: Altimeter Digital Transformation Survey, Q3 2018; Base: N=542

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EXPLORING GROWTH OPPORTUNITIES LEADS THE LIST OF DRIVERS FOR DIGITAL TRANSFORMATION
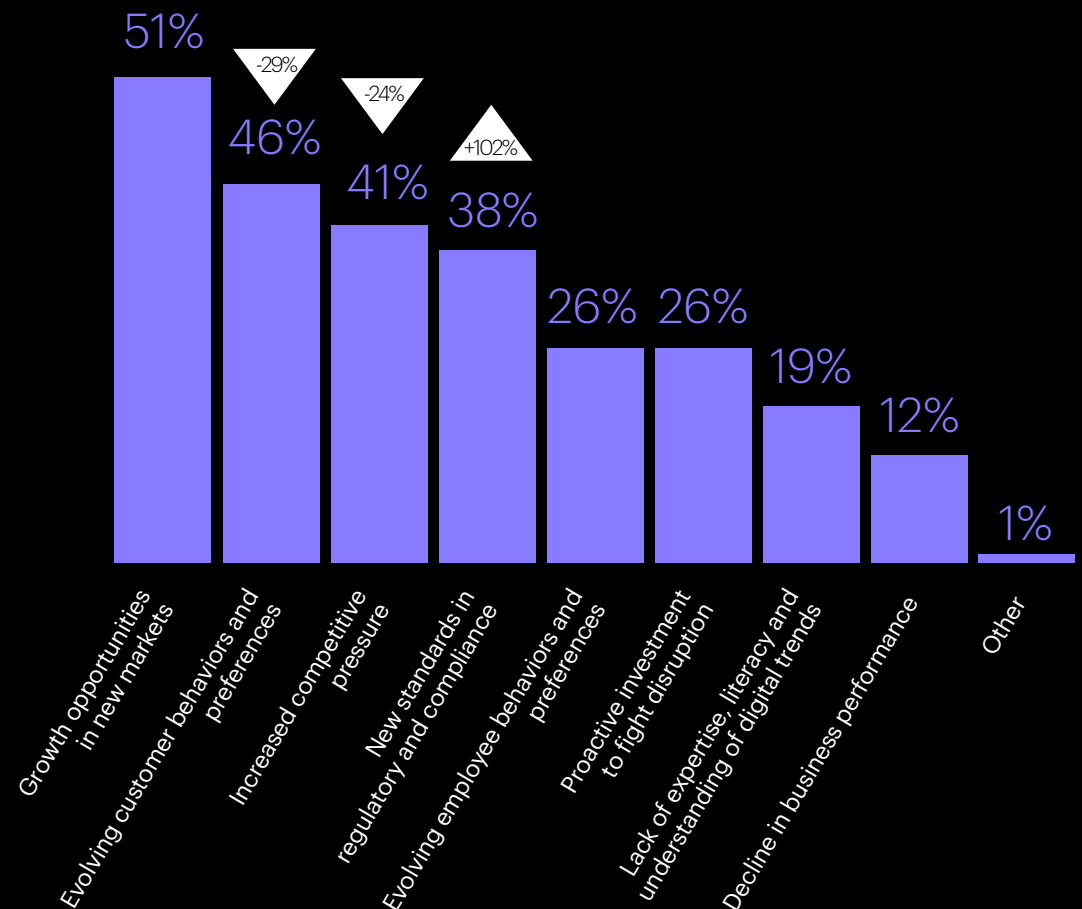
Over the years, the top drivers for advanced digital transformation efforts have consistently revolved around two things: modernizing technologies across the enterprise and investing in modern customer experiences. But as digital transformation takes on the enterprise holistically, understanding evolving customer behaviors and preferences has slid to the second spot in the list of drivers for 2018 (a 29% change from last year). With more than half of the companies (51%) reporting it as the leading driver for their digital transformation efforts, exploring growth opportunities in new markets jumps to the number one spot.

The third leading driver is increased competitive pressure (41%). Down 24% from last year, it shows that, as digital transformation becomes more and more common, the playing field becomes increasingly level. Consumers have come to expect modern digital engagement as table stakes, so CX and EX will become ever more important as competitive differentiators.

Also on the rise in 2018 — and surging 102% from last year — is the importance of regulatory and compliance standards as a driver of digital transformation (38%). This driver is clearly motivated by new regulations such as the European Union's General Data Protection Regulation (GDPR) and the increasing frequency and publicity of data breach scandals.

FIG 5: KEY DRIVERS OF DIGITAL TRANSFORMATION

Q: What are the key drivers of digital transformation within your organization?

Driver	Value
Growth opportunities in new markets	51%
Evolving customer behaviors and preferences	46% (-29%)
Increased competitive pressure	41% (-24%)
New standards in regulatory and compliance	38% (+102%)
Evolving employee behaviors and preferences	26%
Proactive investment to fight disruption	26%
Lack of expertise, literacy and understanding of digital trends	19%
Decline in business performance	12%
Other	1%

Source: Altimeter Digital Transformation Survey, Q3 2018; Base: N=554

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LONG- AND SHORT-TERM PRIORITIES FOR DIGITAL TRANSFORMATION EFFORTS

Digital transformation is a long game. At the same time, it has to start somewhere. Over the years, the biggest digital transformation priority for companies has continued to be the customer experience. That work is aimed at fixing and modernizing the customer journey. Once this happens, digital transformation tackles more sweeping efforts that involve multiple groups. This is why the organizations who are further along the six stages of digital transformation develop customer-centered roadmaps and then divide and conquer against those initiatives across the enterprise. They do so with an eye on the short-term — initiatives starting now or within the next three years — and also factor in the long-term (initiatives now or within the next five-to-10 years) with an emphasis on technologies, business models, and operations.

FIG 6: LONG-TERM VERSUS SHORT-TERM PRIORITIES

Q: Which initiatives are most important to your long-term digital transformation efforts (next five to ten years)? Which are on your short-term roadmap (the next three years)?
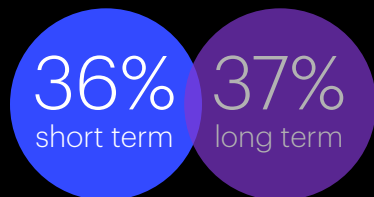
Initiative	Long term	Short term
Integrating all social, mobile, web, commerce, service efforts and investments to deliver an integrated, frictionless, and omnichannel customer experience	57%	54%
Modernize IT infrastructure and technologies with increased agility, flexibility, manageability and security	49%	45%
Investing in a more intuitive and integrated ecommerce and mobile commerce platforms and processes	37%	36%
Overhauling customer service to meet expectations of connected consumers	36%	31%
Accelerating innovation through formal programs, internal and external	34%	34%
Further research into our customer's digital touchpoints and customer journey	34%	35%
Creating a formal infrastructure and process around data/insights/analytics	31%	32%
Improve operational agility and modernizing policies and processes to more rapidly adapt to change	27%	28%
Corporate reorganization of people and departments to increase collaboration and efficiencies in digital	22%	25%
Creating a digital culture that's more literate, adaptive and innovative	20%	27%
Modernizing the employee experience (EX)	17%	23%
Formalizing innovation efforts, or creating an innovation team to test new digital concepts	14%	24%
Using strategic investments and/or M&A to expand our digital capabilities	13%	18%
Training and/or hiring employees with new skill sets	13%	19%

Source: Altimeter Digital Transformation Survey, Q3 2018; Base: N=554
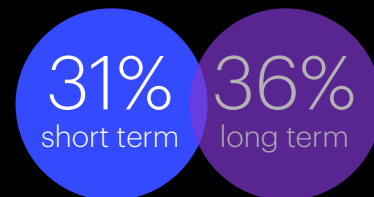
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Modernizing Touchpoints and Improving CX

In 2018, like in 2017, most digital transformation efforts continue to focus on understanding customers, modernizing touchpoints and journeys, and enabling a more customer-centric and real-time infrastructure. In the short-term, 54% of companies reported that they are fast-tracking efforts to integrate all social, mobile, web, commerce, and service efforts and investments to deliver an integrated, frictionless, omnichannel CX. Fifty-seven percent of companies reported that this is also their long-term priority. This percentage is up 21% from 2017, which is expected given that technology isn't going to stop evolving — and neither are customer behaviors and expectations. Customer touchpoints must be updated continuously as fractured, dated, or unintuitive ones impair the customer experience and introduce fissures into customer relationships and loyalty over time.

CX-focused efforts represent a significant cluster of short and long-term digital transformation priorities as well. These represent immediate areas of opportunity, but also show that companies are focusing on keeping customer touchpoints up-to-date and relevant in the long term. They recognize that, as their customers become more and more comfortable with mobile and emerging technologies, they need to understand these connected customers' shifting expectations and preferences better through real-time data and analytics. Additionally, they need to employ new programs and services that consistently meet the needs of their connected customers.
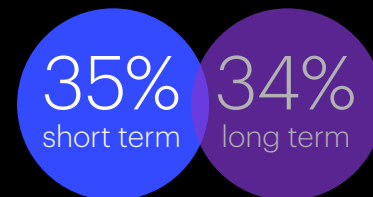
Organizations specifically aiming to deliver a more intuitive and integrated ecommerce and mobile journey by modernizing commerce platforms and processes.	Organizations updating customer service/support to meet expectations of connected consumers.	Organizations conducting further research into customers' digital touchpoints and the customer journey.	Organizations creating a formal infrastructure and process around data/insights/analytics.
36% short term **37%** long term	**31%** short term **36%** long term	**35%** short term **34%** long term	**32%** short term **31%** long term

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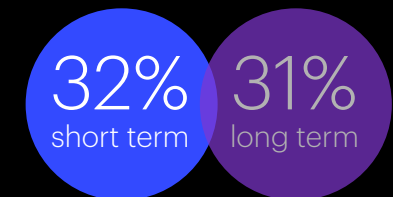
Focusing on Technological and Operational Upgrades to build a foundation of innovation and agility

For lasting, impactful change, companies have to focus beyond CX to transform core operational foundations so they can compete and innovate more efficiently. For example, in addition to focusing on CX, companies we surveyed are prioritizing — both in the short term (45%) and the long term (49%) — the development of an agile IT infrastructure and technologies with increased flexibility, manageability and security.

We also learned that 34% of companies are accelerating and sustaining formal innovation programs now and in the future. But only 24% of companies surveyed reported that formalizing innovation efforts or creating an innovation team to test new digital concepts was a short-term priority of theirs — and only 14% of them reported that this was a long-term focus for them. Our research shows that companies that are most advanced in their digital transformation efforts are both adaptive and innovative. That only one-third of companies prioritize creating a formal innovation program — and even fewer believe it's important to the long-term success of their transformation efforts — is worrisome. Innovation deserves greater attention. To develop a sense of urgency around this need, digital transformation groups and executives must demonstrate its value and ROI across the organization.

Shining a Light on the Human Factors Associated with Digital Transformation

This year, we also observed companies placing an increased importance on digital transformation initiatives around workplace dynamics, collaboration, communication, decision-making, employee experience, and organizational culture. Twenty-eight percent of organizations are funding transformation initiatives to improve operational agility and to modernize policies and processes so they can more rapidly adapt to change. Twenty-seven percent reported this is a long-term focus of theirs as well.

More telling, 25% (short-term) and 22% (long-term) of companies are using digital transformation to reorganize people and departments in order to optimize cross-functional collaboration and create efficiencies. As companies grow in digital transformation maturity, we expect these numbers to increase as they reorganize themselves to be more competitive and agile in the face of evolving markets.

As customer behaviors, expectations, and preferences change over time, so do the behavior, standards, and aspiration of employees. For companies to truly innovate, their cultures, leadership, and engagement programs must empower employees to grow. As companies continue to acknowledge the importance of culture and employee experience, two human-centered operational efforts have skyrocketed this year:

Companies creating a digital culture that's more literate, adaptive and innovative:

27%
short term
(+47%)

20%
long term
(+104%)
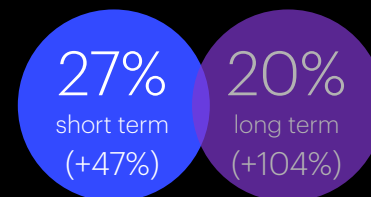
Organizations specifically exploring ways to modernize the Employee Experience and engagement:

23%
short term
(+15%)

54%
long term
(+54%)
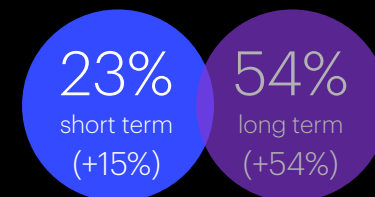
These numbers, while promising, are still low considering the slow road ahead for transformation and innovation. They are only expected to grow as efforts in company culture, employee experience, and innovation demonstrate success and ROI.
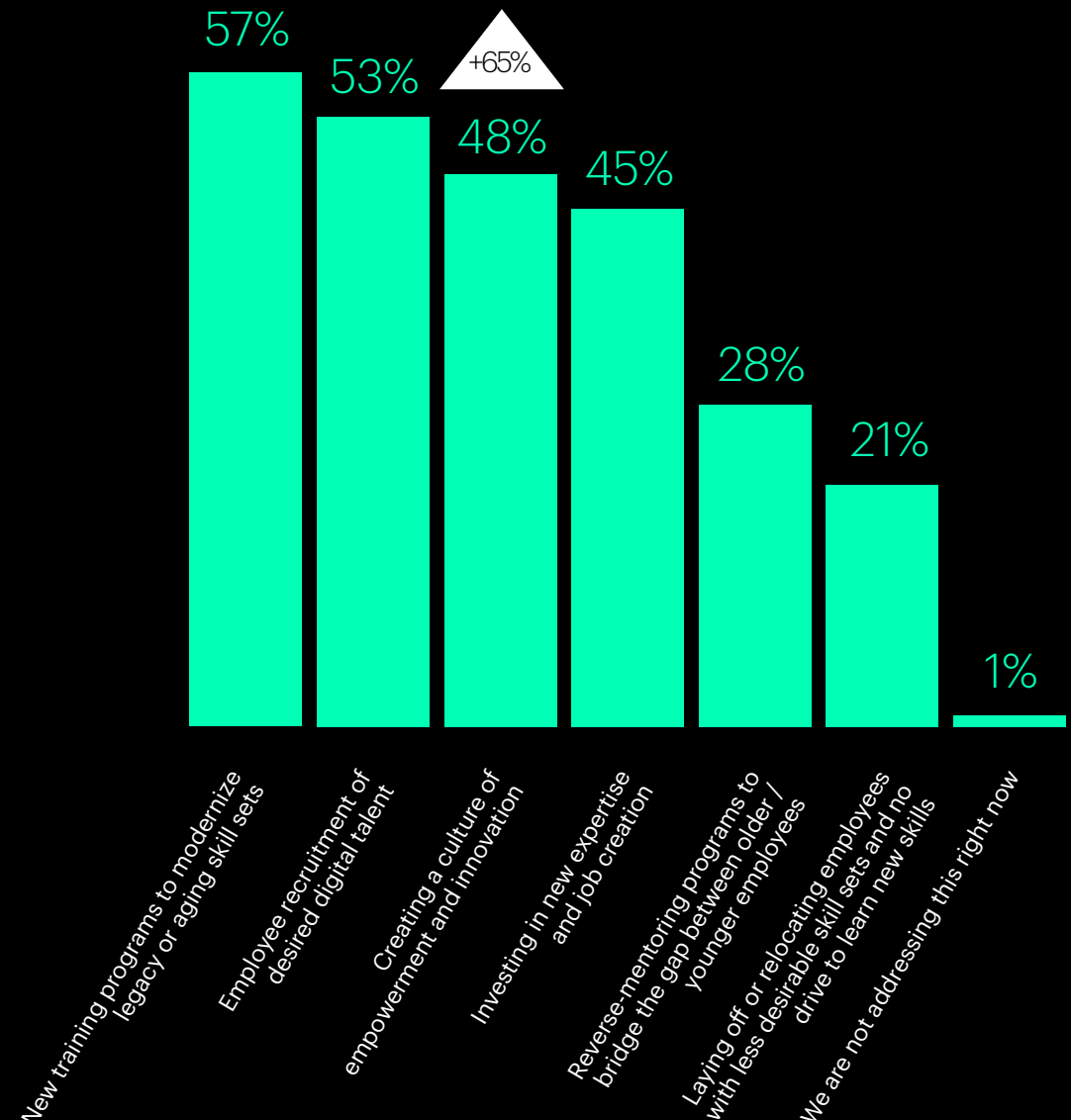
Improving Employee Engagement (EX)

In 2017, we expanded our digital transformation research to include EX. Whether it's customers or employees, digital transformation is about technology and people, and how systems, processes, policies, and work itself must modernize and adapt to markets that are in constant flux. When it comes to employees, engaging, training, and retraining them is paramount to remain competitive.

In our survey, we asked executives to share their three top priorities in digitally transforming their EX. For the second year in a row, most organizations (57%) are prioritizing new training programs to update legacy or aging skill sets. Organizations are also investing in the recruitment of employees who possess desired digital talent (53%).

Most notably, 48% of companies reported that creating a culture of empowerment and innovation was a priority in digitally transforming EX — a surge of 65% over last year. The importance of organizational culture in accomplishing change is a consistent theme in every research effort I've led over the past several years, and here it's no different. The spike in the number of companies focusing on creating a culture of empowerment and innovation points to the critical need to inspire workforces around innovation in every digital transformation effort. And it reminds us of the importance of developing a vision, mission, beliefs and values that employees and customers can support and rally behind.

FIG 7: PRIORITIES FOR TRANSFORMING THE EMPLOYEE EXPERIENCE

Q: What are your top three priorities in digitally transforming the employee experience?

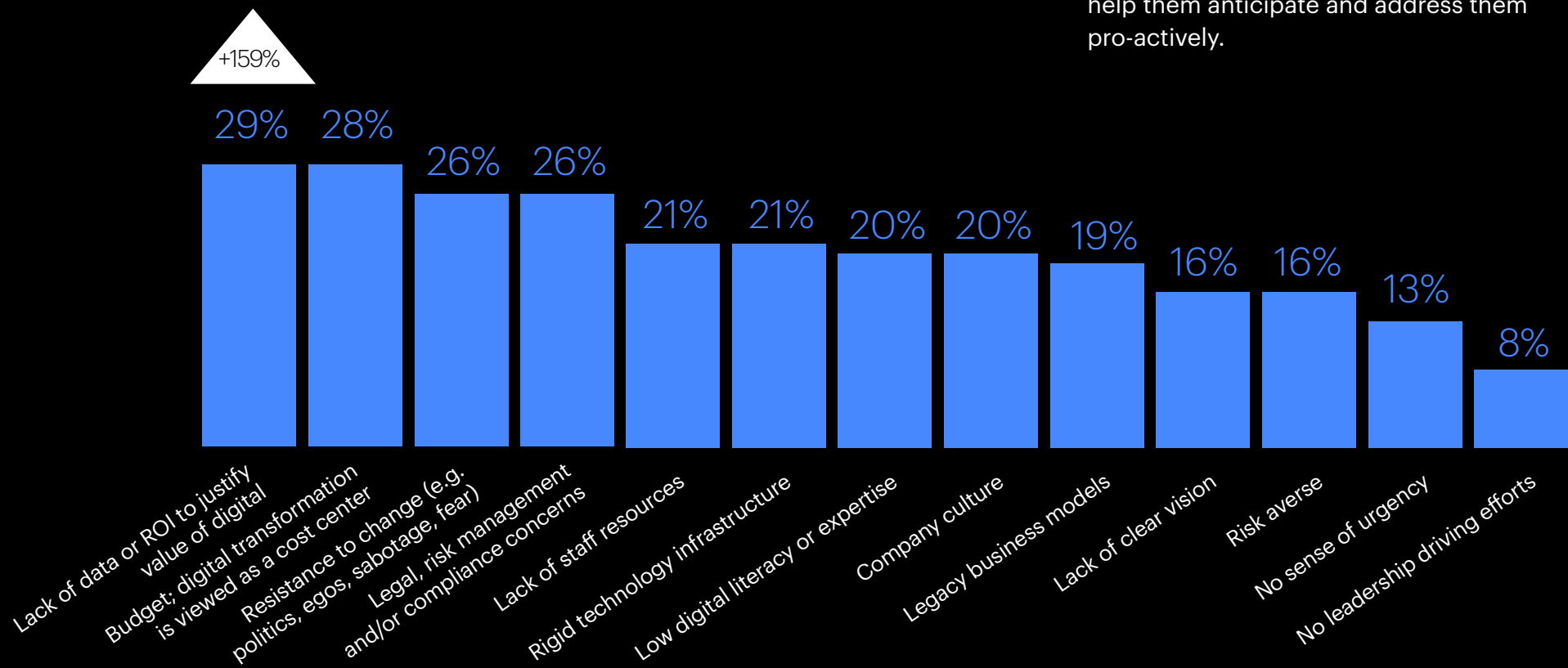| Priority	Value
New training programs to modernize legacy or aging skill sets	57%
Employee recruitment of desired digital talent	53%
Creating a culture of empowerment and innovation	48% (+65%)
Investing in new expertise and job creation	45%
Reverse-mentoring programs to bridge the gap between older / younger employees	28%
Laying off or relocating employees with less desirable skill sets and no drive to learn new skills	21%
We are not addressing this right now	1%

Source: Altimeter Digital Transformation Survey, Q3 2018; Base: N=554

TOP CHALLENGES DIGITAL TRANSFORMERS FACE IN 2018

FIG 8: THE CHALLENGES OF DIGITAL TRANSFORMATION

Q: Each of the following describes different types of challenges surrounding digital transformation initiatives. Please indicate the most difficult challenges you or your company come up against in digital transformation efforts. You may choose up to three.

Each year, we ask executives to share the most difficult challenges they face in their digital transformation efforts. Digital transformers and change agents who aim to accelerate and expand transformation initiatives are wise to study this list — it will help them anticipate and address them pro-actively.

+159%

29%	28%	26%	26%	21%	21%	20%	20%	19%	16%	16%	13%	8%

- Lack of data or ROI to justify value of digital
- Budget; digital transformation is viewed as a cost center
- Resistance to change (e.g. politics, egos, sabotage, fear)
- Legal, risk management and/or compliance concerns
- Lack of staff resources
- Rigid technology infrastructure
- Low digital literacy or expertise
- Company culture
- Legacy business models
- Lack of clear vision
- Risk averse
- No sense of urgency
- No leadership driving efforts

Lacking Clear ROI Data, Digital Transformation Is Perceived as a Cost Center, Not an Investment

The top challenge reported by executives is the lack of data or ROI to justify the value of digital transformation (29%). The percentage of executives that cited this as their top challenge went up 159% from last year. At 28%, the second top challenge cited is budget and the perception of digital transformation as a cost center, not as an investment in performance and growth.

These two challenges are intertwined. When it comes to digital transformation and innovation, it seems many executives, boards, shareholders, and stakeholder are often "out of touch" with the factors driving market evolutions and disruptions. While they often perceive digital transformation as a resource that takes away from shareholder value and quarterly performance, the reality is that it is an investment in near and longer-term competitiveness and value creation. Without clear data that shows how digital transformation positively affects the bottom line, digital transformers or change agents struggle to get the resources they need to succeed.

Resistance to Change and Organizational Culture Continue to Pose Significant Barriers to Transformation

The third most difficult challenge experienced by companies we surveyed was resistance to change and human dynamics like workplace politics, egos, sabotage and fear (26%), rising from sixth place in 2017. This move up the list of challenges indicates that, as digital transformation evolves beyond IT and marketing, there's a stronger need for leadership and human resources to unite and engage the workforce around these issues.

In 2017, the third top reported challenge in digital transformation was company culture. Prior to that, it was consistently ranked as the number one challenge in our annual digital transformation research, and also in our corporate innovation series with Capgemini.[3] But this year it is tied for fifth place. Oftentimes, corporate cultures are rigid and employee experiences, like a significant percentage of customer experiences, are often dated — after all, they were developed for a different type of work performed under vastly different circumstances. Culture and EX must undergo a significant evolution to accelerate change from the inside out.

[3] Solis, Brian, Jerome Buvat, Subrahmanyam KVJ, and Rishi Raj Singh. "The Innovation Game: Why & How Businesses Are Investing in Innovation Centers." LinkedIn SlideShare. https://www.slideshare.net/capgemini/the-innovation-game-why-how.

Companies Prioritize Updating Customer Touchpoints, But a Large Percentage of Companies Still Haven't Studied the Modern Customer Journey

The majority of businesses report that modernizing CX touchpoints is a priority of digital transformation efforts (54%), and a majority of companies are finally doing so by researching customer journeys (59%). This presents a significant opportunity for companies that seek to advance their digital transformation efforts through real world (physical, digital and mobile) customer experiences.
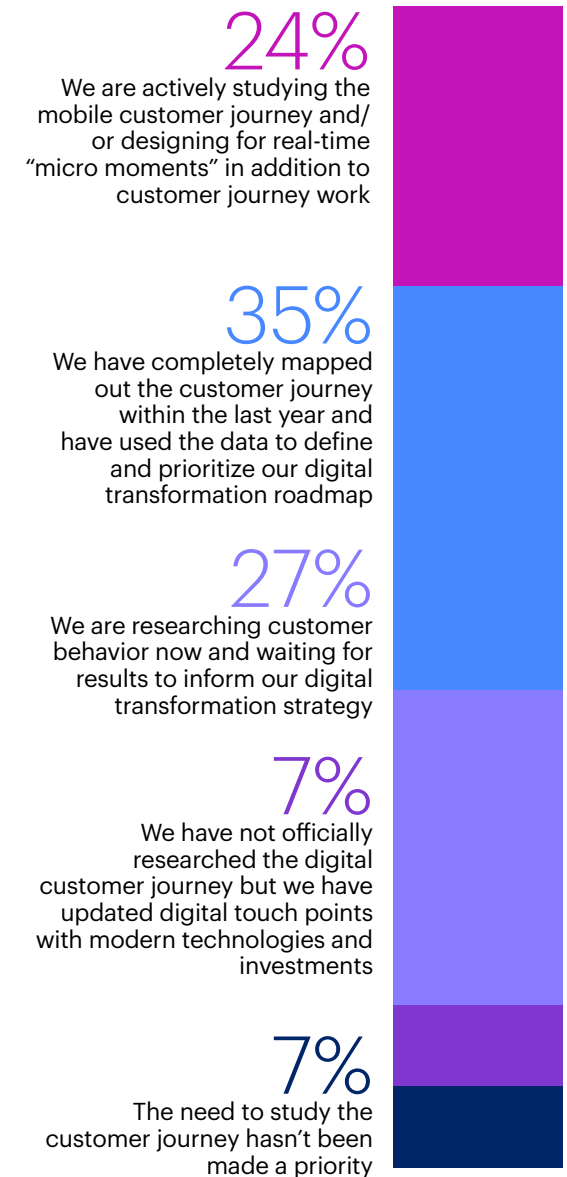
This is encouraging as it demonstrates a rising level of maturity (the "elite") among companies that are progressing across the six stages of digital transformation. For example, 35% have completely mapped out the customer journey within the last year and have used that data to define and prioritize their digital transformation roadmap. An additional 24% are also actively studying the mobile customer journey and real-time "micro-moments."

Concurrently, the customer journey maturity spectrum also includes companies that are operating without the benefit of customer insights. We found that a notable percentage (41%) of companies are only now beginning to research customer behavior and awaiting results (27%), or are not studying customer behavior at all (14%).

The annual tradition of investing in digital transformation and CX without studying customer journeys and data is coming to an end. This presents executives with a unique opportunity. As customers become more and more digital, they cast more and more signals. And in an era of machine learning, companies have a unique opportunity to convert these vast but critical signals into real-time strategies that focus on improving experience, performance, and business growth. As such, marketing can shed its traditional scope to lead innovation in CX, and regain some of the influence they've lost in leading or owning digital transformation.

FIG 9: JOURNEY MAPPING AND CUSTOMER RESEARCH

Q: Which of the following best describes your company's efforts around the customer journey/experience?

24%
We are actively studying the mobile customer journey and/or designing for real-time "micro moments" in addition to customer journey work

35%
We have completely mapped out the customer journey within the last year and have used the data to define and prioritize our digital transformation roadmap

27%
We are researching customer behavior now and waiting for results to inform our digital transformation strategy

7%
We have not officially researched the digital customer journey but we have updated digital touch points with modern technologies and investments

7%
The need to study the customer journey hasn't been made a priority

Source: Altimeter Digital Transformation Survey, Q3 2018; Base: N=554

COMPANIES ARE MAKING BIGGER INVESTMENTS IN DIGITAL TRANSFORMATION, IN BUILDING A CULTURE OF INNOVATION, AND IN DISRUPTIVE TECHNOLOGIES

In an era of disruptive technologies including AI, machine learning, robotics, AR/VR, autonomous vehicles, blockchain, and more, digital transformation is critical to an organization's ability to compete effectively. The stakes today are higher than ever. The companies who are further along the six stages of digital transformation are allocating more resources and investing not just in key technologies but in developing a culture of innovation that will sustain their transformation efforts in the long haul.

Budgets Are Growing

In the early stages of digital transformation, budgets are usually small and focused within a particular initiative that operates independently. As digital transformation matures and expands its mandate, budgets also swell to lead cross-functional initiatives as well as make technology upgrades. As a result, budgets grow exponential.

This year, digital transformation budgets are not only growing, smaller budgets are simultaneously subsiding. Although the largest number of companies (18%) reported having budgets for digital transformation in the range of $1 million and $4,999,999, that number is down by 63% from last year. Seventeen percent of companies shared that their budgets range between $5 million and $14,999,999 — a number that is also down substantially (-43%).
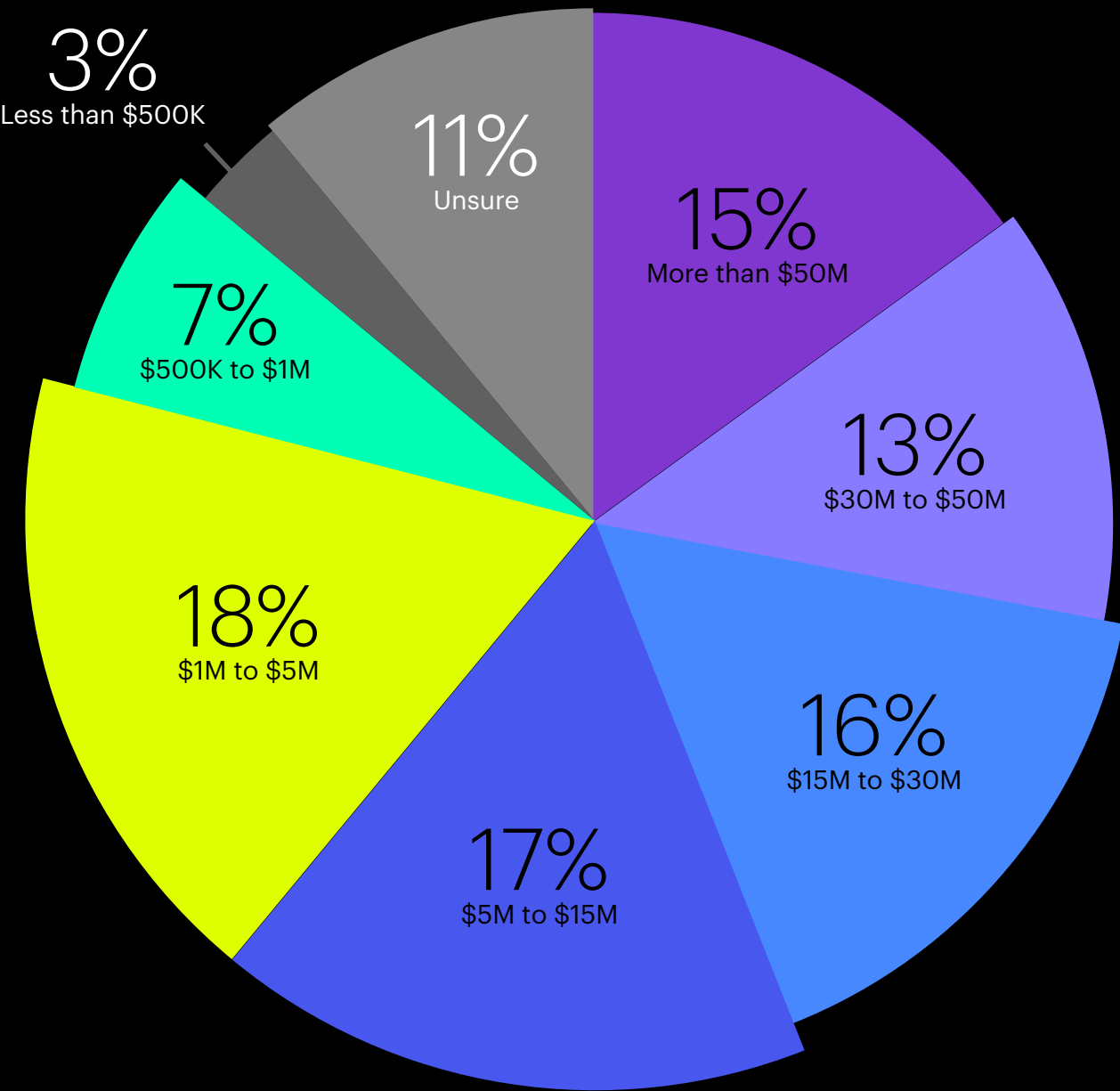
But budgets between $15 million and $29,999,999 skyrocketed 210% this year, with 16% of companies reporting that theirs fell in that range. And budgets between $30 million and $49,999,999 climbed a whopping 234%, with 13% of companies reporting budgets of that size. Finally, the percentage of companies reporting budgets of more than or equal to $50 million jumped from 2% in 2017 to 15% in 2018, representing a dramatic rise of 640%.

The old saying "not all that glitters is gold" might apply here, though. While budgets are growing spectacularly, they are doing so while companies still don't have a thorough understanding of customer and employee behaviors. As we noted earlier in this report, only 35% of companies have studied the modern customer journey. This leaves us wondering how much these budgets are on target to effect meaningful transformation versus being destined to be spent in digital for the sake of digital. Even though we didn't capture the equivalent metric for companies studying the employee journey, one can assume that it's not dissimilar from what we see in CX efforts. Just as companies aren't investing in deeply understanding the modern customer journey, we can assume the same is true for the employee journey.

Companies literally cannot afford to throw money and resources at the digital in digital transformation without understanding and appreciating the evolution, impact, and potential of digital customers and employees.

FIG 10: ANNUAL BUDGET FOR DIGITAL TRANSFORMATION

Q: Please estimate your annual budget for digital transformation efforts.

3% Less than $500K

11% Unsure

15% More than $50M

13% $30M to $50M

7% $500K to $1M

18% $1M to $5M

16% $15M to $30M

17% $5M to $15M

Source: Altimeter Digital Transformation Survey, Q3 2018; Base: N=554

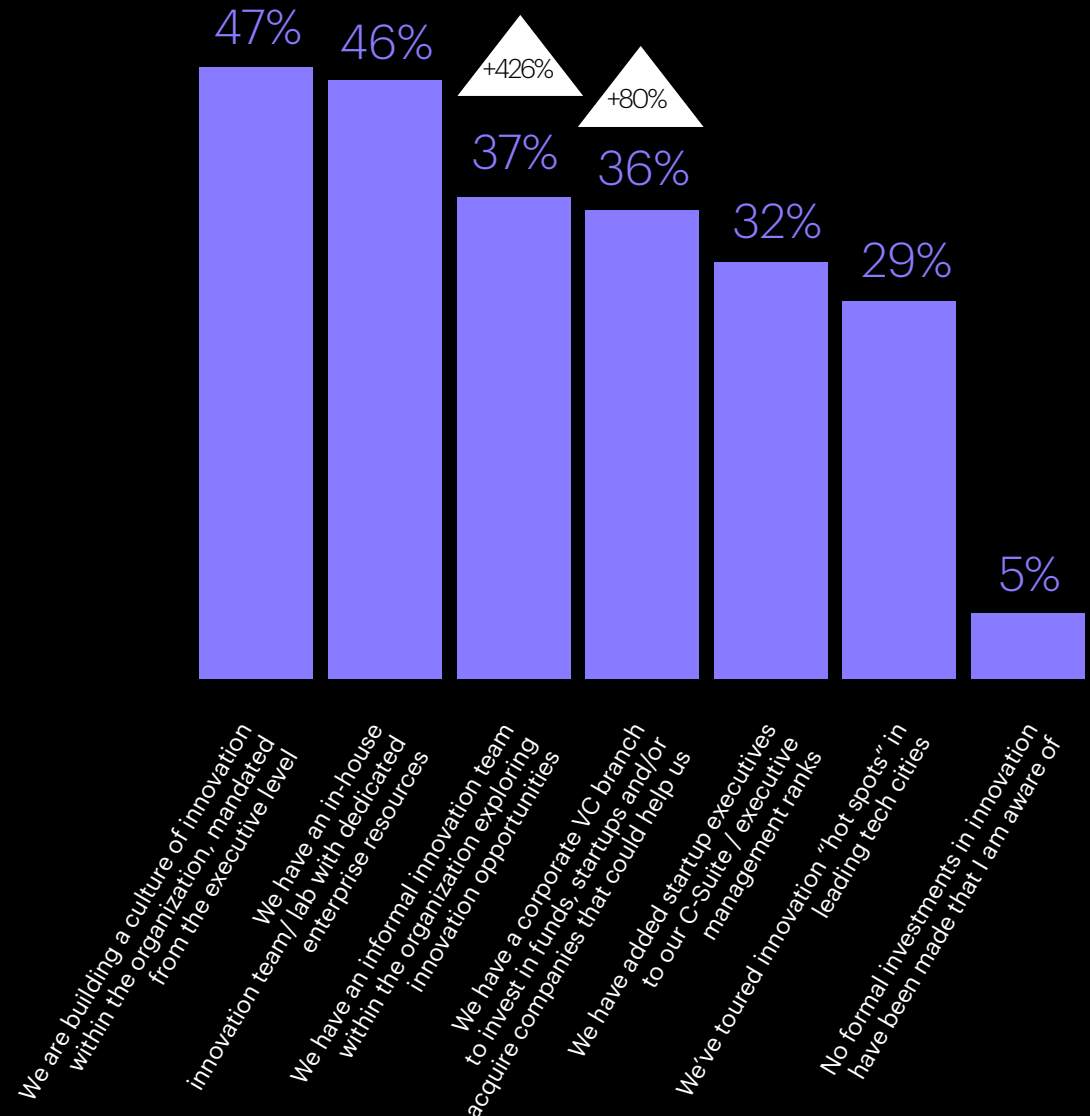## Developing a Culture of Innovation Is a Top Investment Priority

While most companies agree that innovation is instrumental to compete in a digital economy, how innovation takes shape and gains momentum varies greatly from organization to organization. Before investing in innovation teams, programs, or technologies, companies who are most advanced in their digital efforts turn culture into an internal accelerator of innovation and transformation.

When we asked executives about the types of investments in innovation their organizations were making, 47% responded that they were investing in building a culture of innovation, as mandated at the executive level. Almost half of the companies we surveyed (46%) also reported that they have assembled an in-house innovation team/lab with dedicated enterprise resources. Informal innovation teams aimed at exploring innovation opportunities are taking shape at 37% of companies, up 426% from last year.

Also, up 80% from last year, 36% of companies surveyed have created corporate VC branches to invest in funds and startups or acquire companies that could help them further innovate. Finally, new to the ranking this year, a notable 29% of companies reported having acquired startups and adding their founders and key employees to executive management ranks. These moves represent advanced strides toward the sixth stage of digital transformation — "innovative and adaptive" — and serve as best-in-class examples for how other companies can get there.

FIG 11: INVESTMENTS IN INNOVATION

Q: What types of investments in innovation has your organization made?

Bar chart values:
- 47% — We are building a culture of innovation within the organization, mandated from the executive level
- 46% — We have an in-house innovation team/lab with dedicated enterprise resources
- 37% (+426%) — We have an informal innovation team within the organization exploring innovation opportunities
- 36% (+80%) — We have a corporate VC branch to invest in funds, startups and/or acquire companies that could help us
- 32% — We have added startup executives to our C-Suite / executive management ranks
- 29% — We've toured innovation "hot spots" in leading tech cities
- 5% — No formal investments in innovation have been made that I am aware of

Source: Altimeter Digital Transformation Survey, Q3 2018; Base: N=554
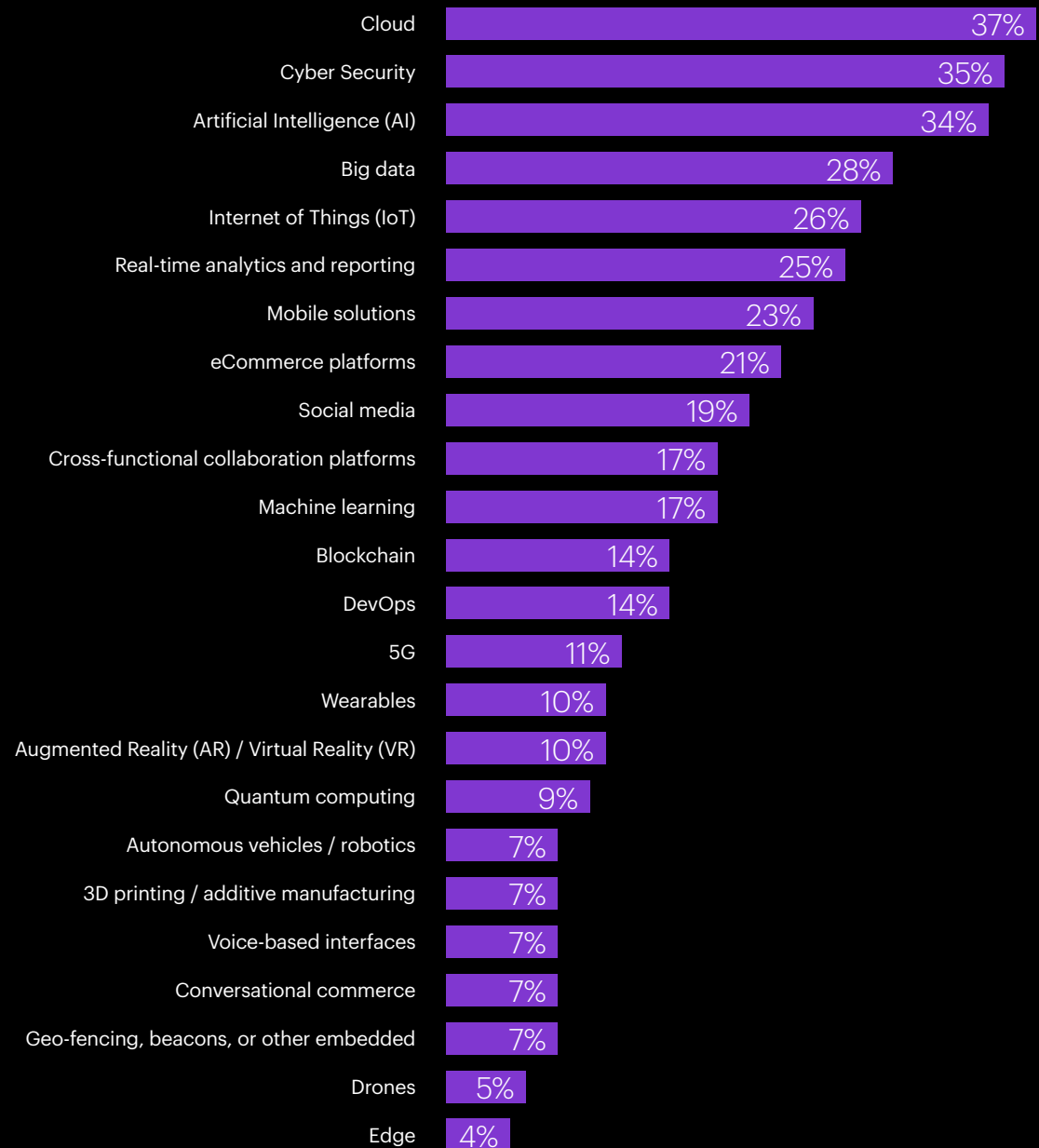
Companies Are Prioritizing Investments in Potentially Disruptive Technologies

Digital transformation was initially intended to modernize technological infrastructure, migrating costly, dated, and complicated hardware and software solutions to more agile and scalable cloud and mobile platforms. But since the early days of digital transformation, the speed of technology innovation has only increased. Now the digital in digital transformation has to keep up with all relevant technology trends as they represent disruptive threats and competitive opportunities. This is likely a key driver of 2018's dramatic rise of substantial digital transformation budgets.

This year, we set out to understand the top priorities in technology that are shaping digital transformation strategies. As you can see in Figure 12, the emerging technologies companies plan to focus on investing in 2019 go way beyond cloud and mobile. The list is comprehensive and indicative of how wide the potential disruption of these technologies can be. The sheer number of them also points to the considerable resources and agility that companies need to innovative and adapt. After all, each of these technologies requires a cross-collaborative team with IT representation to evaluate the opportunities they present and what they require to be deployed. As they say, the list goes on and on.

FIG 12: TOP-PRIORITY TECHNOLOGY INVESTMENTS IN 2019

Q: What are your top priorities for technology investments in 2019?

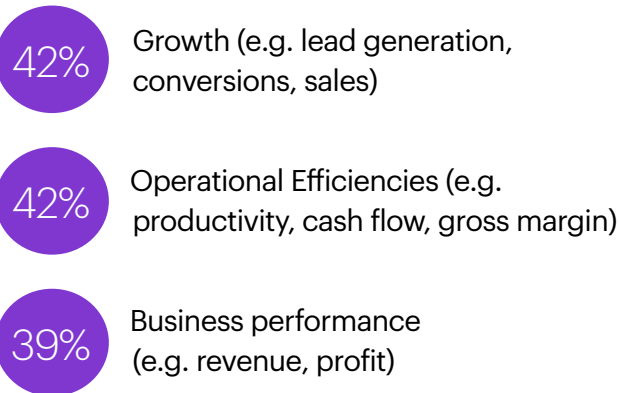| Technology	%
Cloud	37%
Cyber Security	35%
Artificial Intelligence (AI)	34%
Big data	28%
Internet of Things (IoT)	26%
Real-time analytics and reporting	25%
Mobile solutions	23%
eCommerce platforms	21%
Social media	19%
Cross-functional collaboration platforms	17%
Machine learning	17%
Blockchain	14%
DevOps	14%
5G	11%
Wearables	10%
Augmented Reality (AR) / Virtual Reality (VR)	10%
Quantum computing	9%
Autonomous vehicles / robotics	7%
3D printing / additive manufacturing	7%
Voice-based interfaces	7%
Conversational commerce	7%
Geo-fencing, beacons, or other embedded	7%
Drones	5%
Edge	4%

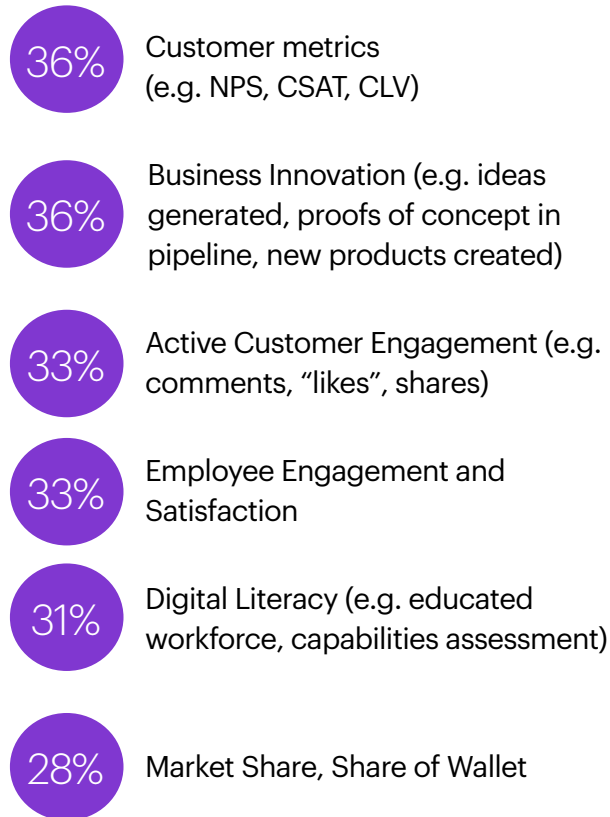Source: Altimeter Digital Transformation Survey, Q3 2018; Base: N=554

METRICS THAT ALIGN WITH BUSINESS OBJECTIVES LEAD THE WAY IN VALIDATING DIGITAL TRANSFORMATION EFFORTS AND INVESTMENTS

In 2018, we set out to understand the metrics digital transformers are using to measure digital transformation progress and establish grounds for funding and expanding initiatives. The leading metrics were all linked to total business objectives and outcomes.

The top three metrics reported by companies are aimed at tracking business growth and operational performance:

42% Growth (e.g. lead generation, conversions, sales)

42% Operational Efficiencies (e.g. productivity, cash flow, gross margin)

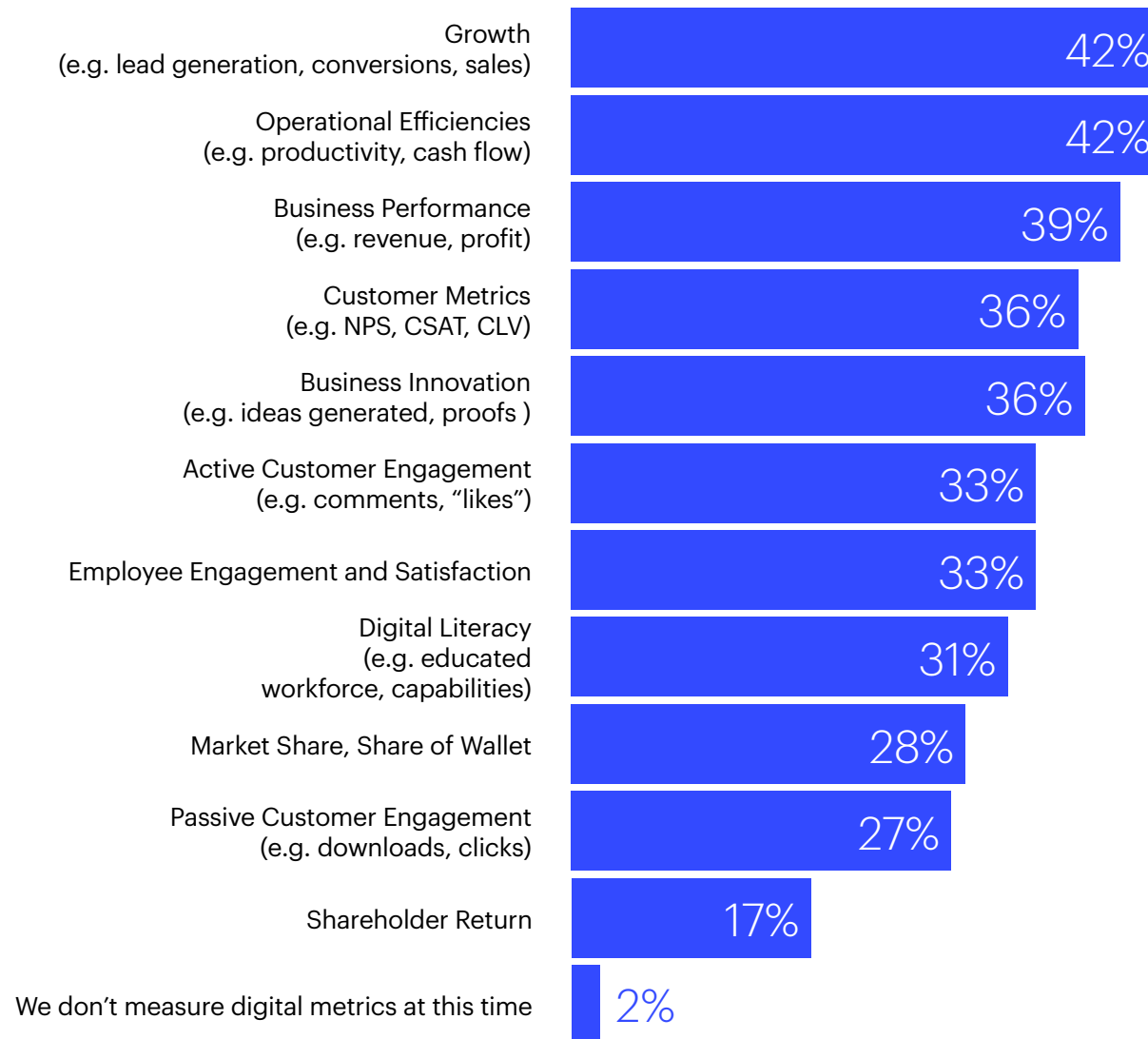**39%** Business performance (e.g. revenue, profit)

The next set of metrics in the list measures customer and employee engagement and operational capabilities across the various areas of digital transformation focus:

36% Customer metrics (e.g. NPS, CSAT, CLV)

36% Business Innovation (e.g. ideas generated, proofs of concept in pipeline, new products created)

33% Active Customer Engagement (e.g. comments, "likes", shares)

33% Employee Engagement and Satisfaction

31% Digital Literacy (e.g. educated workforce, capabilities assessment)

28% Market Share, Share of Wallet

Getting support for effective and pervasive digital transformation programs requires a narrative that's broader than "digital." When making their case for digital transformation, most fledgling digital transformers place too great an emphasis on the many disruptive and emerging technology trends vying for attention. But in the end, change needs purpose and ultimately a vision to move resources toward shared and tangible goals. Metrics that align with these are more likely to effectively make the case for advanced digital transformation and also persuade other stakeholders and executives to support it. These metrics are a way of speaking "the language of the C-Suite" and finding common ground. Doing so helps stakeholders align on roadmaps, sponsor new efforts, and increase available resources.

FIG 13: DIGITAL TRANSFORMATION METRICS

Q: What metrics does your organization actually measure today related to digital transformation?

Metric	Percentage
Growth (e.g. lead generation, conversions, sales)	42%
Operational Efficiencies (e.g. productivity, cash flow)	42%
Business Performance (e.g. revenue, profit)	39%
Customer Metrics (e.g. NPS, CSAT, CLV)	36%
Business Innovation (e.g. ideas generated, proofs)	36%
Active Customer Engagement (e.g. comments, "likes")	33%
Employee Engagement and Satisfaction	33%
Digital Literacy (e.g. educated workforce, capabilities)	31%
Market Share, Share of Wallet	28%
Passive Customer Engagement (e.g. downloads, clicks)	27%
Shareholder Return	17%
We don't measure digital metrics at this time	2%

Source: Altimeter Digital Transformation Survey, Q3 2018; Base: N=554

CONCLUSION: SEVEN PRIORITIES TO ACCELERATE DIGITAL TRANSFORMATION MATURITY AND SUCCESS

- **AUDIT THE STATE OF DIGITAL TRANSFORMATION AT YOUR COMPANY ACROSS THE SIX STAGES**

  In our research, we consistently find that most companies think they're further along in their digital transformation journey than they really are. In order to offer a benchmark tool that companies can use to compare their internal perception of where they are against those of their peers, we've analyzed years of digital transformation progress among companies and documented key milestones in the advancement of digital transformation. Undergoing an audit — not just once, but at strategic intervals — will allow you to track your organization's progress and align your roadmap with those of best-in-class organizations.

- **STUDY THE DIGITAL CUSTOMER JOURNEY AND ORGANIZE EFFORTS AROUND INSIGHTS AND OPPORTUNITIES**

  It's frustrating that organizations are prioritizing CX initiatives without studying digital (and more specifically, mobile) customer experiences routinely. Understanding how customers' intents, behaviors, and preferences are evolving gives purpose to CX strategies. These insights also inform cross-functional digital transformation initiatives that directly touch and affect the customer. For CX to be its most effective at unifying any enterprise-wide digital effort, gathering these customer insights should be a priority of a cross-functional group. Communicating these insights to the digital transformation steering committee helps to ensure consistency, keep the C-Suite informed, and ultimately earn top-down support.

- **STUDY THE EMPLOYEE JOURNEY TO IMPROVE EX**

  The old adage of "happy employees make happy customers" applies to digital transformation, too. In our research, we've also learned that employee engagement means more than just "happy employees". Helping employees develop critical digital literacy — and training, retraining, and engaging them around a digital transformation vision — empowers them and turns them into capable allies in your transformation and innovation efforts. To understand the state of your employees' competence, motivation and overall engagement, you must study the employee experience and journey continuously. As with CX, EX too will benefit from connecting insights to initiatives.

- **MAKE DATA THE CENTER OF YOUR DECISION-MAKING**
  It's no secret that today, data is fragmented, incomplete, and siloed. Leading organizations are building centralized data infrastructures to better inform and support cross-functional efforts. Doing so promotes collaboration and integration, unifying digital transformation around data-supported, meaningful efforts. Advanced, agile organizations are also investing in data science and expertise, and in AI and machine learning, to support real-time and even predictive data analytics. These investments create incredible competitive advantages by providing advanced CX, EX, and operational insights that strategically inform digital transformation roadmaps and innovation efforts.

- **ALIGN DIGITAL TRANSFORMATION INVESTMENTS WITH BUSINESS OBJECTIVES**
  This year, the rising role of CEOs overseeing digital transformation is encouraging. At the same time, many digital transformation and innovation efforts are still often viewed as cost centers. The need to substantiate investments is more important than ever. To shift the perception of digital transformation from cost to investment strategy, you need ROI metrics. Successful digital change agents[4] and steering committees make the case for their initiatives not by emphasizing the need of a company to simply get on a technology trend bandwagon, but by tying transformation efforts to expected business outcomes. To do that, they're prioritizing metrics that link digital transformation and innovation to business objectives, ROI, and growth. This helps them make the case for funding broader and bolder investments.

- **CONSIDER CAREFULLY HOW TECHNOLOGY TRENDS FACTOR INTO YOUR DIGITAL TRANSFORMATION ROADMAPS**
  The war on who owns digital transformation is coming to an end. Now, CIOs and specialized IT organizations are forming business partnerships with key strategic groups within the enterprise to explore how technology can help meet business goals. Digital transformers are tracking emerging technology trends and assessing where those technologies can have the greatest impact and ROI. From its seat on the steering committee, IT can help connect emerging technology trends to overall enterprise and corporate innovation objectives.

- **PRIORITIZE A CULTURE OF TRANSFORMATION AND INNOVATION**
  When we first researched digital transformation in 2014, we found that the companies that were furthest along the six stages of digital transformation were those that emphasized the human-side of digital and change rather than technology-first approaches. We also found that culture was consistently cited among the organizations we studied as the leading challenge to digital transformation and innovation. This year, it's evident that progressive companies are prioritizing investments in organizational culture to be more iterative, adaptive, and innovative. Follow their lead and focus on creating an organizational culture of innovation, and introduce EX programs that empower your employees, that modernize employee engagement, and cultivate a more digitally capable workforce.

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[4] Solis, Brian. "The Digital Change Agent's Manifesto." Altimeter, a Prophet Company. https://marketing.prophet.com/acton/media/33865/he-digital-change-agents-manifesto--altimeter.

METHODOLOGY

We surveyed 554 professionals from brands, consulting firms, and other organizations with at least 1,000 employees, across three geographies: North America (US and Canada); Europe (UK, France and Germany); and China. The respondents from these organizations included in-house and agency digital strategists, and C-suite or other executive-level leaders. Our sample includes a fixed quota of respondents from five industry verticals: Banking/Finance, Healthcare/Pharmaceuticals, Manufacturing, Retail, and Technology. We asked each respondent multiple choice answer questions about digital transformation at their respective organizations.

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