

RESEARCH REPORT

The 2017 State of Digital Transformation

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INCLUDES SURVEY DATA FROM 528 DIGITAL
TRANSFORMATION LEADERS AND STRATEGISTS

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Executive Summary

Our third, annual State of Digital Transformation — 2017© report reveals how, why, and to what extent businesses are and are not investing in digital strategies, initiatives, and operational models.

The good news is a growing number of businesses are investing in innovation strategies to uncover new growth opportunities. The bad news is most companies surveyed lag behind or ignore the pervasive change in connected consumers' buying behaviors.

Hundreds of millions of people worldwide use smartphones and other digital devices to communicate, buy and sell, learn, and be entertained, but many companies still have not made critical investments to be digitally competitive and consumer responsive as this global shift happens.



Key Findings

Many companies surveyed in 2017 are still struggling with technological and human challenges of Digital Transformation (DT).

Key findings are:

- Meager digital literacy within businesses is restraining the scope and extent of innovation to respond to consumers' new expectations.
- Often when companies do invest in digital-transformation initiatives, they are viewed as short-term cost centers with very limited budgets and other resources, not the long-term investments they must be for long-term success.
- Many company cultures are risk-averse, and their leaders do not feel a sense of urgency to compete differently, despite global consumers' embracing smart telephones and the Internet for more than a decade.
- Politics, egos, and fear are the main obstacles to achieving the collaboration and solidarity needed within companies to make the changes digital consumers want.

This continuing lag lands a disconcerting number of businesses in early stages of The Six Stages of Digital Transformation maturity framework.

However, companies that are excelling are prioritizing the digital customer experience (CX) and employee experience (EX) to learn, identify gaps and opportunities, and define innovation roadmaps. They are spending more money than ever in innovation programs to leverage today's digital reality.

Digital transformation lacks leadership and purpose.

The definition of digital transformation has expanded to cover everything involving digital trends and technologies. Achieving buzzword status seems to be diluting the importance of digital transformation as a C-Suite imperative and the need to accelerate enterprise-wide investments in digital expertise, capabilities, and innovation. For example, our 2017 survey shows only 40% of responding companies operate with an executive-mandated steering committee responsible for organizational transformation.

Fewer than half invest in knowing customers' and employees' new desires and behaviors.

The proliferation of mobile devices and pervasiveness of the Internet in everyday life have radically changed customer and employee expectations, preferences, and behaviors. Furthermore, the rise of disruptive technologies, such as Artificial Intelligence (AI), machine learning, blockchain, Augmented Reality and Virtual Reality (AR and VR), the Internet of Things (IoT), autonomous vehicles, conversational commerce, and other advancements, will continue to alter human behavior.

Customers and employees are evolving from business as usual. Yet, it appears that executives do not clearly understand connected customers and employees. While understanding evolving customer and employee behaviors and preferences is the top driver for digital transformation, only about a third of companies surveyed have within the last year completely mapped their customers' journey to define and prioritize digital transformation strategies. And, fewer than half are studying how mobile devices affect customer touchpoints.

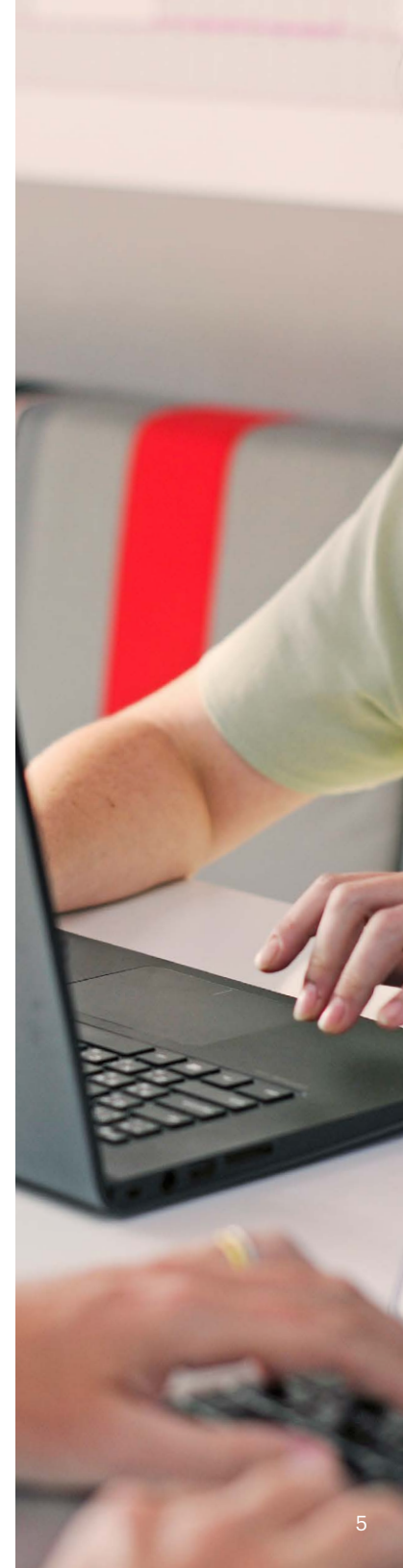
When it comes to digitally enhancing employee experience, only half of the companies surveyed actively recruit employees with the required digital talents. We also found that 62% are introducing new training programs to modernize legacy or aging skillsets.

Digital transformation needs change management.

The "digital" in digital transformation implies technology-centric metamorphosis. Many of the challenges are no stranger to business evolution. They're often human and require management and shepherding to guide change from the perspective of the organization and individuals.

The red flags in this year's State of Digital Transformation report signal the need for more businesses to develop and realign priorities and operate with a sense of purpose and urgency.

As we document in The Six Stages of Digital Transformation, when companies focus and invest in technologies that positively affect customers' and employees' new expectations, preferences, and behaviors, these businesses become more competitive and grow.



2017 Highlights

- While businesses cite “evolving customer behaviors and preferences” as the top driver of digital transformation, fewer than half invest in understanding digital customers.
- Some executives are beginning to own digital transformation efforts, and the Chief Information Officer (CIO) is most often at the helm (28%). As all companies increasingly become “technology companies,” the roles of the CIO and IT department are more important than ever — but true success in digital transformation is an enterprise-wide, cross-functional endeavor.
- Companies and their change agents still face big challenges in the pursuit of digital transformation, including a lack of digital talent and expertise (31.4%), the perception that digital transformation is a cost center and not an investment (31%), and general culture issues (31%).
- While companies are making some attempts to modernize employees’ skillsets for a digital economy with new training programs (62%), only about half are investing in new digital talent. The employee experience is a crucial, yet often overlooked, element of a successful digital transformation.
- Only 37% of businesses view digital transformation as an investment in the fight against market disruption.
- Innovation is becoming an executive-level mandate, with organizations trying to spark innovation externally and internally through “innovation tours” (38%), in-house labs (56%), and encouraging a culture of innovation (53%).
- The majority of businesses are planning roadmaps and making investments with incomplete information about the customer. This year’s findings show that only 34.8% of businesses have fully mapped the customer journey within the last year—down from 54% last year.



Digital Transformation

Digital Transformation's Evolving Definition

To reflect its current state and direction, for our 2017 report we continue to evolve our definition of digital transformation to mean:

The investment in and development of new technologies, mindsets, and business and operational models to improve work and competitiveness and deliver new and relevant value for customers and employees in an ever-evolving digital economy.

How to Thrive When Customers and Employees Demand Better Experiences

Our research shows digital transformation is a change progressing without a universal vision or map to guide businesses toward a desired state.

Companies typically pursue change from a known, safe approach correlating with “business as usual” practices. Operating within the confines of traditional paradigms without purpose or farseeing vision eventually challenges the direction, capacity, and agility for thriving in our digital economy.

After several years of interviewing those championing digital transformation, we have identified a series of patterns, components, and processes that form a strong foundation for change. The six distinct stages are:



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



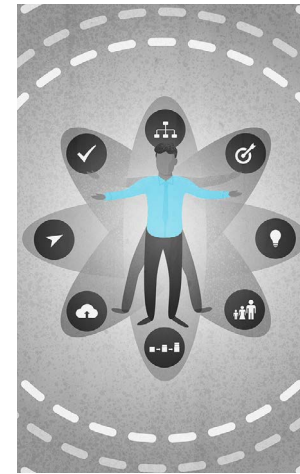
FORMALIZED

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 for 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 phases serve as a digital-maturity blueprint to guide purposeful and advantageous digital transformation.

Executives And Senior Leaders Now Drive Digital Transformation Initiatives

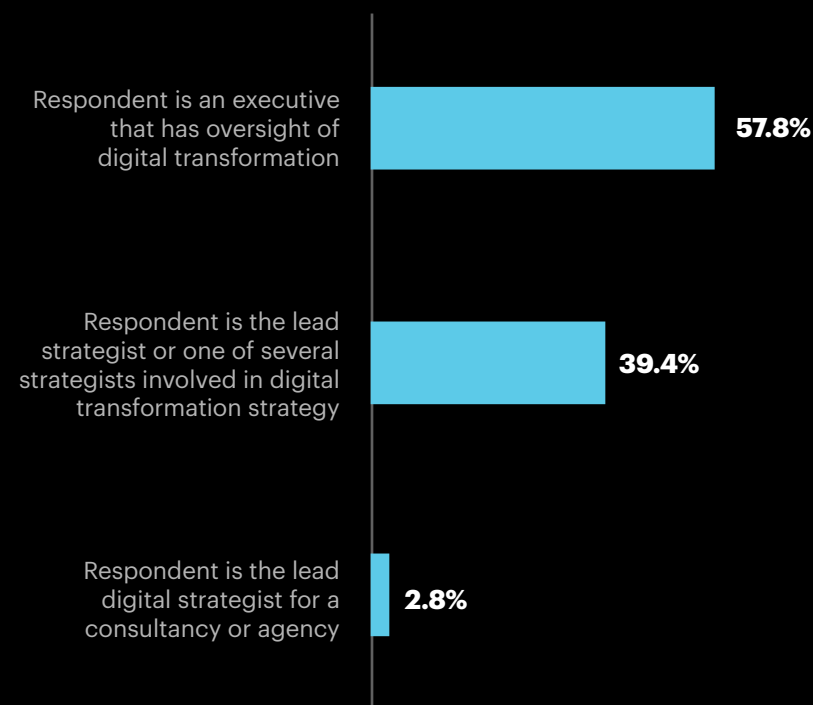
Change agents are heralded as the human sparks for the digital transformation of an enterprise.

Champions for digital transformation are on the front lines to comprehend the impact of and potential for disruption in their work and their organization at large. Early in the Six Stages, change agents are instrumental in moving organizations along the maturity model from the Business as Usual stage through Present and Active. They prepare for the Formalized stage efforts by appealing to executives and key stakeholders/shareholders. For digital transformation to advance through all Six Stages, leaders and executive sponsors are needed every step of the way.

In 2017, more executives are paying attention to digital transformation. For the first time in our research, executives and lead strategists represent the lion's share of participants in this year's report. For example, 57.8% of participants are executives with oversight of digital transformation initiatives.

FIGURE 1

RESPONDENT INVOLVEMENT IN DIGITAL STRATEGY



What is your involvement in your organization's digital transformation strategy?, N= 528

Source: Altimeter Digital Strategist Survey, August 2017

CIOs surpass CMOs in leading digital transformation.

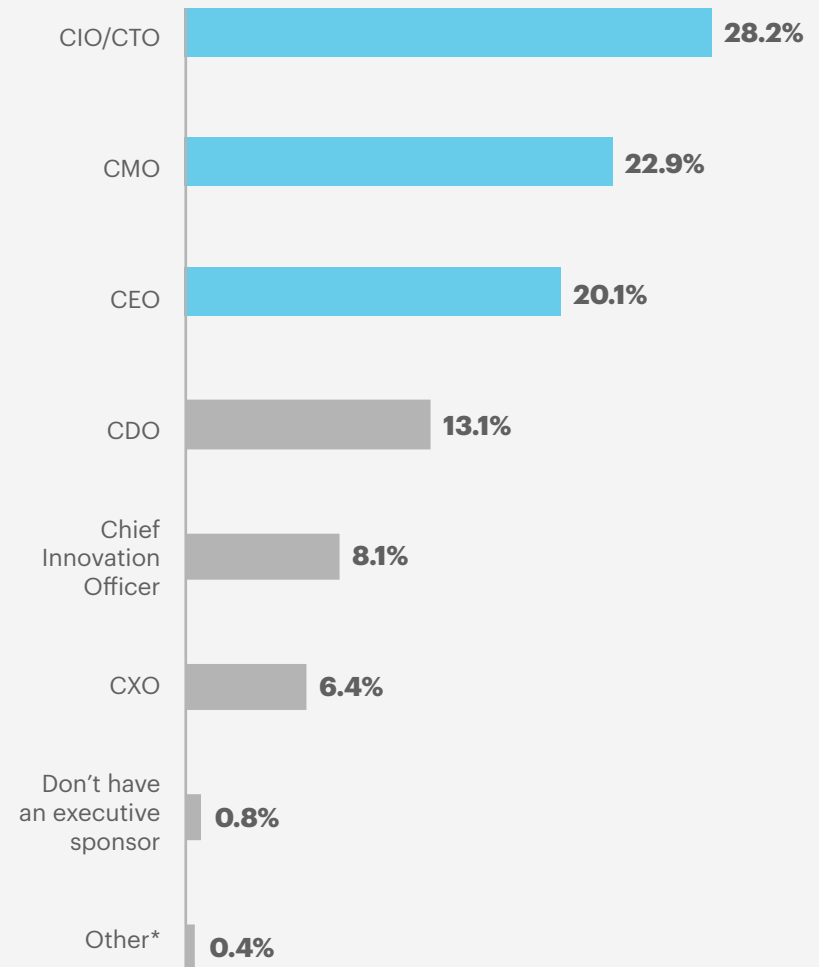
In 2014 and 2015, our research about digital transformation was among the earliest to point out the growing rivalry between Chief Marketing Officers (CMOs) and Chief Information Officers (CIOs) as primary owners or sponsors of digital transformation.

Preliminarily, in the rise of digital transformation, CIOs were the clear leaders as businesses were making substantial investments in modern technologies to improve operations and supply chains. As customer experience and digital marketing rose in importance, CMOs also led in technology spending and new initiatives. In 2015, for instance, we found that CMOs led digital transformation initiatives in 34% of companies we studied compared with CIO/CTOs accounting for 19%.

2017 is a much different story. This time around, 28.2% of our survey participants indicated that the CIO/CTO is responsible for digital transformation, compared to CMOs at 22.9% of respondents. Just behind are CEOs, who move from second position in 2016 to third at 20.1%. The role of Chief Digital Officer fell from 15% in 2016 to 13.1% as the function itself — and like other Customer Experience Officer (CXO) roles — is absorbed by evolving executive stakeholder groups. For example, this year, we also saw a chartable rise of the Chief Innovation Officer at 8.1%. This reflects the growing number of innovation initiatives becoming a part of digital transformation and an overall business imperative.

FIGURE 2

EXECUTIVE RESPONSIBLE FOR DIGITAL TRANSFORMATION



* Director of Operations, Head of R&D

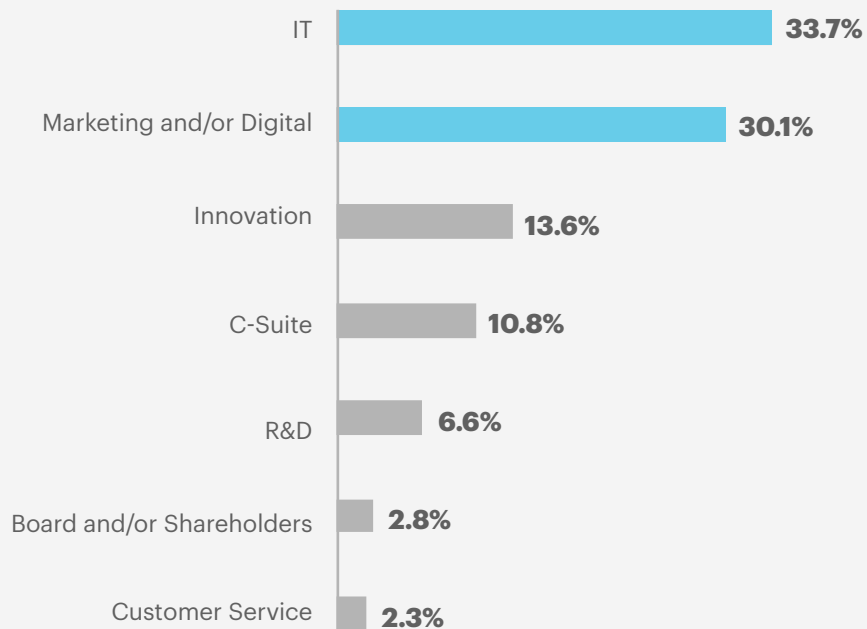
Which executive officially owns or sponsors the formal digital transformation initiative?, N= 528

Source: Altimeter Digital Strategist Survey, August 2017

IT department leapfrogs marketing to lead digital transformation initiatives.

In 2017, our survey also asked respondents to name the department responsible for digital transformation. Similarly, IT ranked ahead of marketing/digital at 33.7% versus 30.1%, respectively. We also observed the rise of the “innovation” department, which represents responsibility for 13.6% of digital transformation. Corporate innovation is vital to uncovering new means and opportunities to better compete.

FIGURE 3
DEPARTMENT RESPONSIBLE FOR DIGITAL TRANSFORMATION



Q9: From which department did digital transformation efforts originate?, N= 528

Source: Altimeter Digital Strategist Survey, August 2017

**Corporate innovation
is vital to uncovering
new means and
opportunities to
better compete.**



All companies are becoming technology companies.

There are many current trends across business and technology landscapes that point to digital transformation's shift away from marketing and toward the IT organization. As digital transformation matures within a business, the investment, implementation, and management of new technologies is destined for CIOs and IT. At the same time, businesses face a wave of disruptive technologies fated for implementation in every part of a company's technology ecosystem. These disruptive technologies — AR, VR, AI, machine learning, big data, blockchain, IoT, and conversational commerce — require technical ownership and skillsets to design and implement new solutions.

Faster and faster, all types of businesses are becoming technology companies. In our inaugural 2014 digital transformation report, Adam Brotman, Starbucks' executive vice president of global retail operations and partner digital engagement, shared that Starbucks "acts like a consumer technology company" when it comes to its digital strategy. He advised other companies to do the same.

Fast-forward to July 2017, when Starbucks' Chief Strategy Officer Matt Ryan discussed the scope of its ever-broadening technology strategy as part of the company's post-earnings call.

"This fundamental modernization of our technology stack will replace legacy rewards and ordering functionality with the new, scalable, cloud-based platform for rewards and ordering, improved customer data organization, and tighter integration with store-based operating systems, including inventory and production management," Ryan said.

As digital transformation matures, many more companies are exploring innovative technology as an enabler for new customer- and employee-driven initiatives. Domino's Pizza also cites its current trajectory and success by becoming a technology company that also makes and delivers pizza around the world. Domino's Pizza Chief Executive Officer (CEO) Patrick Doyle shared lessons about making radical change to traditional business models at a 2016 CEO summit titled *How to Transform a Legacy Company Into a Technology-Enabled, Nimble, Category-Disrupting Machine*.

Domino's prioritizes investments in technology and expertise to emphasize innovation in pizza delivery. As a result, it hired 400 software and analytics professionals to explore application improvements and new delivery capabilities, such as drones, autonomous cars, and mobile ovens.



For digital transformation to progress through the Six Stages, it must ultimately be enterprise-wide.

Digitally mature form cross-functional groups to manage digital transformation.

Everyone must shift their efforts toward next-generation digital customers and employees and relevant technologies and processes, as well as possess the business acumen to drive business growth.

For digital transformation to progress through the Six Stages, it must ultimately be enterprise-wide. This transformation matures into a cross-functional effort owned by key stakeholder groups who report to the C-Suite and the board of directors.

By design, CIOs/CTOs manage enterprise-wide technology initiatives. In comparison, CMOs historically have focused on marketing, sales, and customer experience. These executive roles are evolving. No role, either independently or collectively, can successfully design and implement digital transformation strategies based on legacy or silo-based perspectives, risk-averse decision-making, or internally-focused initiatives.

Key Drivers of Digital Transformation

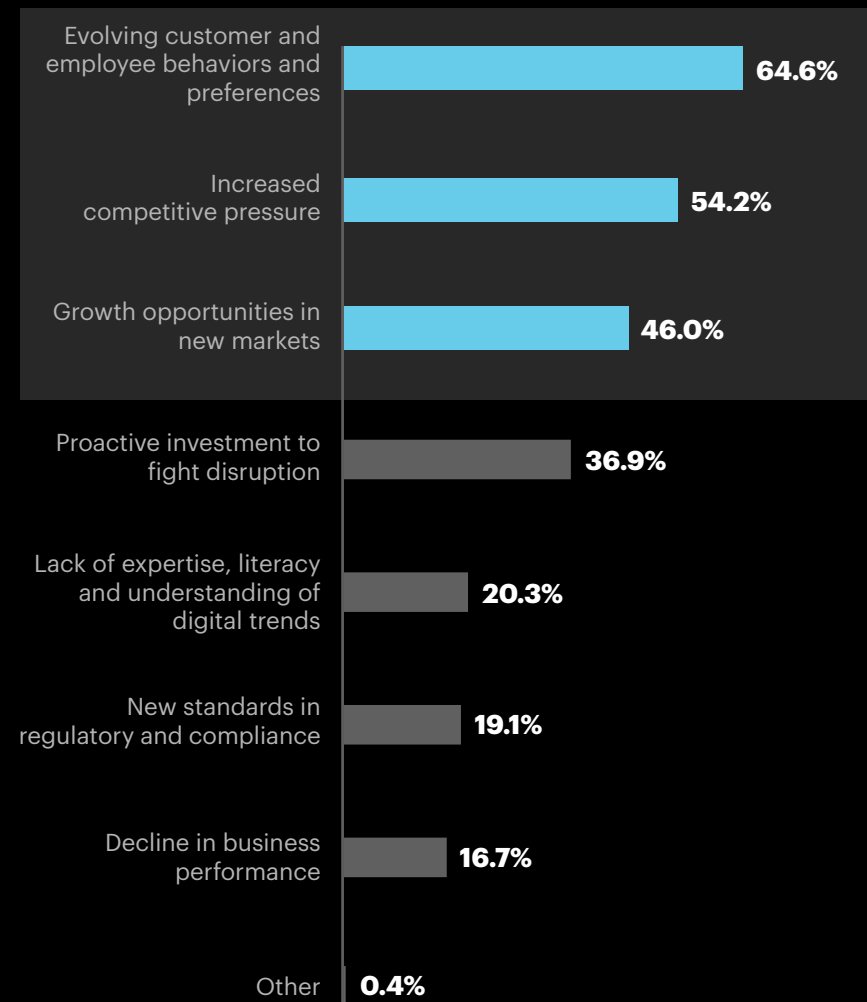
This year, 64.6% of businesses interviewed are prioritizing “evolving customer behaviors and preferences” as a key driver for digital transformation. This is up from 55% in 2016.

In 2014, we consistently found advanced companies centered their efforts on customer engagement and experience. Doing so helped them concentrate on initiatives and investments that drove business value, demonstrated impact, and introduced opportunities to collaborate across a company’s departmental silos.

Competitive pressures and new markets rank as the second and third drivers of digital transformation. These rankings reveal the urgency within companies to optimize operations and innovate. Companies surveyed in 2017 are simultaneously experiencing increased competitive pressure (54.2%) and growth opportunities in new markets (46%).

FIGURE 4

KEY DRIVERS OF DIGITAL TRANSFORMATION



* Director of Operations, Head of R&D

Which executive officially owns or sponsors the formal digital transformation initiative?, N= 528

Source: Altimeter Digital Strategist Survey, August 2017

Digital transformation is an effort to avert “uh oh.”

The remaining drivers should not go unnoticed, as they tell the complex story of how businesses are reacting to digital Darwinism, the survival of the most adaptable in the evolution of technology and its impact on markets and people's behaviors. Most businesses just react to market shifts and trends, making them early in their digital transformation. However, 36.9% surveyed seem prescient because they treat digital transformation as a proactive investment for adapting to market disruption before it's too late.

Getting ahead of digital transformation is a promising trend. Most companies react to change in one of two ways, either ahead of trends (“a ha”) or in response to the effects of change (“uh oh”). In what may be a sign of “uh oh” moving to the forefront, 16.7% of survey participants cited a decline in business performance as their reason for pursuing digital transformation.

Digital transformation is a game-changer. Like every market disruption, it requires companies to shift perspectives and invest in modern proficiencies and talent. Yet, unfortunately, only 20.3% of businesses view “the lack of expertise, literacy, and understanding of digital trends” as a driver for digital transformation.

While customer experience is often cited as a focal point for initial digital transformation, the same digital factors affecting customers also influence employees. This year, we updated our survey to track the growing importance of employees in digital transformation. In 2017 “employee behaviors and preferences” shares the top spot as a primary factor driving digital transformation. We expect employee engagement and experience (EX) to grow in importance in 2018 and 2019.



**36.9% of strategists
invest proactively in
digital transformation
to adapt to market
disruptions.**

Top Challenges for Digital Transformation

With every new opportunity for businesses to evolve, there are significant challenges. How companies address them will determine their growth and progress through the Six Stages.

Each year, in addition to assessing key opportunities, we ask executives to share the top challenges they currently face in their digital transformation efforts.

In our 2016 research, the top business challenge was understanding evolving customer behavior. Executives said that they struggled most with understanding new connected customers' behaviors, which subsequently was the top driver for digital transformation efforts: "evolving customer behaviors and preferences."

FIGURE 5

TOP CHALLENGES FOR DIGITAL TRANSFORMATION INITIATIVES



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 select up to three. N= 528

Source: Altimeter Digital Strategist Survey, August 2017



Lack of digital literacy and expertise anchors digital transformation to the past.

Not everyone understands digital. Businesses and their change agents still face monumental challenges to achieve successful digital transformation. It's difficult for many executives and colleagues to "get" and, therefore, prioritize digital initiatives ahead of personal agendas. Our 2017 study exposes this issue, which will become increasingly visible during the next two years. "Low digital literacy or expertise among colleagues and leadership" leads the list of challenges at 31.4%. Many companies are not equipped to swiftly adapt to disruption.

Limited digital literacy and expertise will greatly restrain transformation, which requires a dedicated employee-engagement program and signals the importance of Human Resources departments in future trends.

Though employee engagement is a critical challenge, it sits atop a long list of equally difficult challenges.



Digital transformation mistakenly viewed as a short-term cost center instead of a long-term investment in competitiveness.

Rather than acting as if digital transformation is an investment in value creation, companies often treat these initiatives as costs: 30.9% of respondents rank this reality as the second top challenge.

It's easy to see any expenditure for the unknown as a risk, or even unnecessary. Instead of embracing digital transformation at its face value, it is common for all stakeholders, even boards of directors, to downplay the need for big investments — especially if a company is performing well today. However, without investments or ventures into new territories, digital transformation's return on investment is stifled.

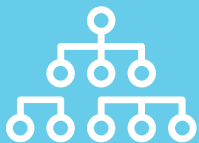


Culture, budgets, and resources are either catalysts or inhibitors.

Company cultures continue as a top impediment to change; affecting support of digital transformation initiatives on all fronts. This year, culture was tied with lack of budget as the third greatest challenge at 30.5%. Our 2014 research showed corporate culture as the top challenge, with 63% of respondents saying it was “very important” and 34% stating it was “somewhat important” to facilitating progress.

It’s not that corporate culture is any less important than in previous years. Without an empowered culture focused on agility and growth, digital transformation and innovation are greatly hampered. It is difficult, and perhaps futile, to solve the culture challenge in one fell swoop while dealing with all other competing priorities.

Those surveyed said “lack of budget” (30.5%) and “lack of resources” (30.1%) for digital transformation initiatives limit the pace and scale of responding to customers’ and employees’ new needs.



Change management is essential to successful digital transformation.

The list of 2017 challenges of digital transformation is long and distributed. Not surprisingly, human dynamics represent a notable hurdle, with 23.7% citing “human barriers” as a top challenge. Not enough of the conversations about digital transformation focus on human dynamics and helping people change and support new directions.

Our research about how change agents successfully drive digital transformation shows outsized egos, fear, sabotage, skepticism, and everything in between are challenges. In cases where digital transformation moves through the Six Stages from Present and Active to Formalized and Strategic and beyond, it requires classical change-management programs to move forward while improving and modernizing company culture, work, and employee engagement.

2017 challenges indicate many organizations are in the nascency of the Six Stages. For companies to progress ultimately to the final Innovative and Adaptive stage, executives must prioritize dedicated efforts in corporate culture and human dynamics to stimulate agility and innovation.

Roadmap: Prioritize Initiatives of Digital Transformation

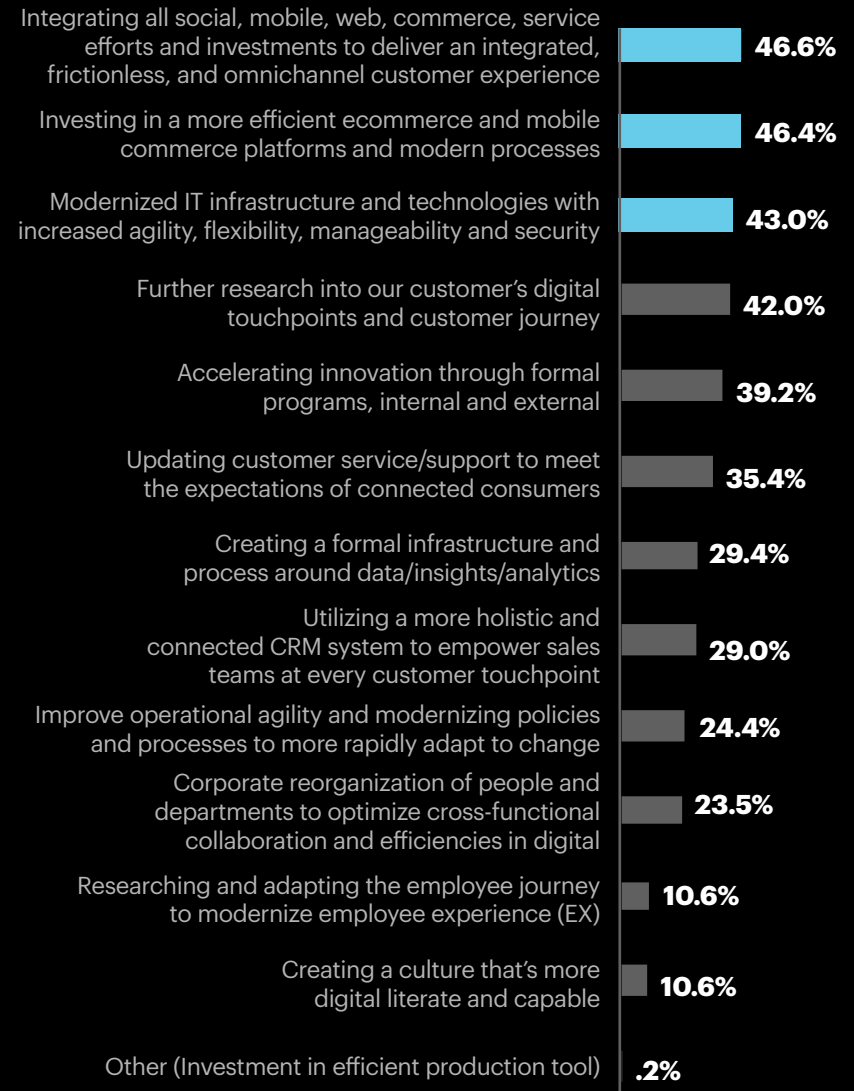
During the early years of digital transformation, technology-centered initiatives were front and center of all efforts.

Since then, CX dominates as the primary focus. Advanced companies prioritize customer experiences to stimulate digital transformation. The past three years of this research reinforces a customer-focused approach. But there is still a long way to go.

When asked to describe the different types of digital transformation initiatives, we learned that cross-channel integration is a top priority. Digital customers are increasingly demanding more intuitive and seamless journeys. In the Six Stages of Digital Transformation, businesses achieve this level of maturity at levels four and five (Strategic and Converged, respectively).

FIGURE 6

DIGITAL TRANSFORMATION INITIATIVES IN ORGANIZATIONS



Each of the following describes different types of digital transformation initiatives. Please indicate which initiatives are most important to your digital transformation efforts. You may select up to five., N= 528

Source: Altimeter Digital Strategist Survey, August 2017



Technology enables integrated customer journeys.

More than 46% (46.6%) of respondents ranked touchpoint integration as the top initiative (“Integrating all social, mobile, web, commerce, service efforts, and investments to deliver an integrated, frictionless, and omni-channel customer experience.”). Customers are not just digital device users. They rely on mobile devices as their primary screen. As a result, nearly the same number of respondents, 46.4%, ranked modernization and merging of e-commerce and mobile commerce platforms as the second most-important initiative.

Of course, no digital transformation can be authentic without the investment in digital technologies. Businesses also are prioritizing a modernized IT infrastructure and technologies with improved agility, flexibility, manageability, and security (43%).

Fewer than half of companies understand digital customers.

True omni-channel experiences are successfully customer-centric only when businesses understand how customers prefer to interact with them through their journeys. In 2017, businesses emphasize the need to further research customers’ digital touchpoints and journeys (42%).

Innovation is a strategic ally for companies acquiring new expertise, capabilities, and opportunities.

In the final stage of our Six Stages maturation model, businesses construct a working model of innovation and agility. With digital transformation, companies are not simply adapting to new environments; they also are exploring what is next. Each year, a growing number of businesses are trying to accelerate innovation through formal internal and external programs (39.2%).

IT's prowess at integrating cross-channel touchpoints is essential to improving the digital customers' experience.

Expected investments for short-term business roadmaps in 2017 are only slightly different than expectations in our 2016 survey. But the overall digital-customer experience still commands overriding importance.

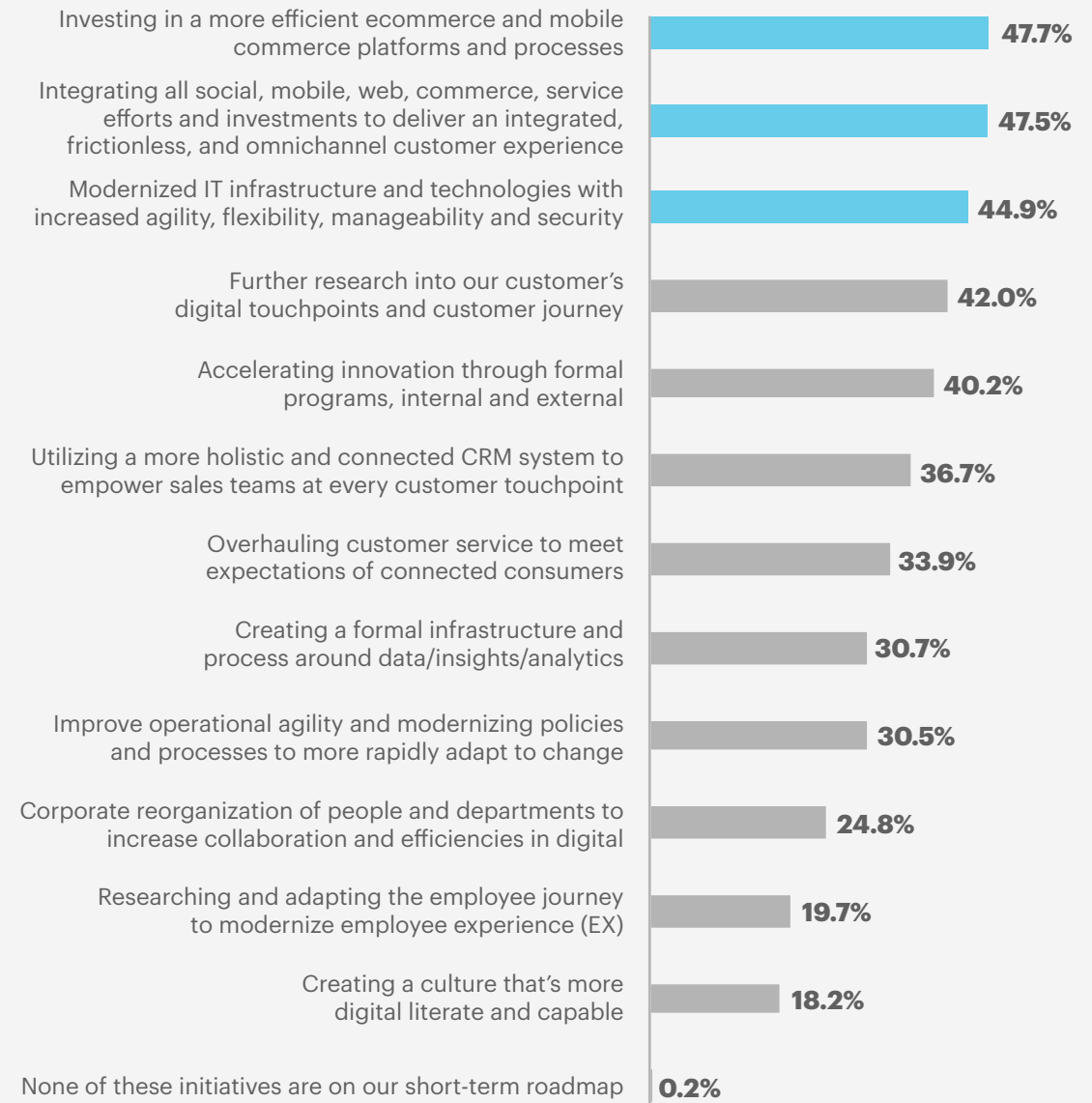
This year's participants said the top two digital transformation initiatives expected during the next three years are "more efficient e-commerce and mobile commerce platforms and processes" (47.7%) and "integration of cross-channel touchpoints into omni-channel experiences" (47.5%). In last year's report, those priorities were reversed.

Mobile technologies require a dedicated and different approach to modern commerce than e-commerce. Mobile-device users are increasingly impatient and discerning about website speeds, content, and design. Companies not delivering desired mobile experiences lose conversion opportunities.

Digital and specifically mobile customers' experiences are more front and center. This is a promising sign. To support it, a modernized IT infrastructure is needed to execute, which ranks among the top-three short-term initiatives.

FIGURE 7

DIGITAL INITIATIVES ON COMPANY'S SHORT-TERM ROADMAP



Which of the following digital transformation initiatives are on your short term roadmap (implemented within the next three years)? Select all that apply., N= 528

Source: Altimeter Digital Strategist Survey, August 2017

Minimal efforts in designing better customer experiences

Because understanding customers' evolution is of prime concern, it is a bit surprising that a majority of companies still are not acting to make sense of customer trends, behaviors, and expectations.

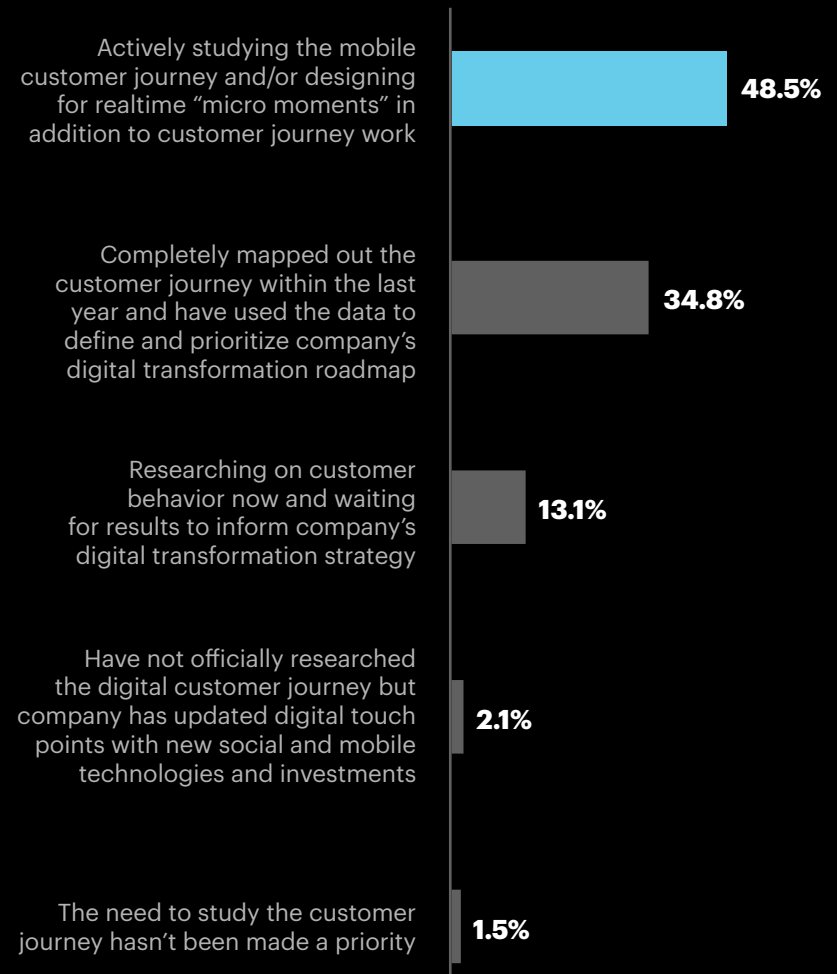
When we asked about current initiatives involving customer journeys/experiences, only 34.8% of businesses report having completely mapped out the customer journey within the last year. This is a significant drop from our 2016 report where 54% of companies reported that they had completely mapped out or were in the process of mapping out the customer journey within the last year. Yet, roadmaps are developed and investments in customer experience are made without completely understanding how customers discover, make decisions, and prefer to engage digitally.

Although the customer journey is a chief catalyst for corporations to respond by digitally transforming those experiences, this year's data shows companies still are not prioritizing customer-centered strategies. How well a company observes and responds to customers' experiences determines its ability to respond with improved experiences, which digital customers now desire.

Many businesses are still managing legacy touchpoints, technologies, and systems that govern current journeys. However, digital customers are exhibiting behaviors revealing they are moving on from outdated experiences.

FIGURE 8

COMPANY'S EFFORTS ON CUSTOMER JOURNEY/EXPERIENCE



Which of the above best describes your company's efforts around the customer journey/experience?, N= 528

Source: Altimeter Digital Strategist Survey, August 2017

One of the biggest issues this survey flags is that while the customers and employees expect a paradigm shift in their respective experiences, most companies are experimenting with digital transformation initiatives based on outdated assumptions. These legacy perceptions put companies behind the CX and EX curve, not in pace or ahead of these unstoppable shifts. Digital customer behaviors are changing fast, but companies aren't changing fast enough. Without a clear understanding of the behavior and expectations of people using the latest digital and mobile technologies, so-called digital-transformation investments, by design, are limited in effectiveness and relevance. However well intentioned, these efforts are not shaped by actual digital customers, and their results will likely sail off course.

Only half of businesses are preparing for mobile-first customers.

At one point, mobile devices were largely viewed as the “second screen.” For a significant and growing number of customers, their mobile telephone is their first and sometimes only screen. Yet, fewer than half (48.5%) of businesses surveyed actively study the mobile-device customer's journey. We've seen this dichotomy three years in a row. Even though companies are prioritizing CX in digital transformation initiatives, most businesses aren't acting with customer-derived intelligence — especially when it comes to mobile devices. To remain competitive, companies must understand customers' behaviors and discern expectations, preferences, technologies, and other critical trends that will accurately inform and accelerate digital transformation. Otherwise, companies risk wasting time and money in areas that do not yield desirable results to customers, stakeholders, and shareholders. Not acting on customer-derived intelligence increases a business' vulnerability to disruption.



Most companies are experimenting with digital transformation initiatives based on outdated assumptions about their customers.

Corporate Innovation—the Next Chapter of Digital Transformation

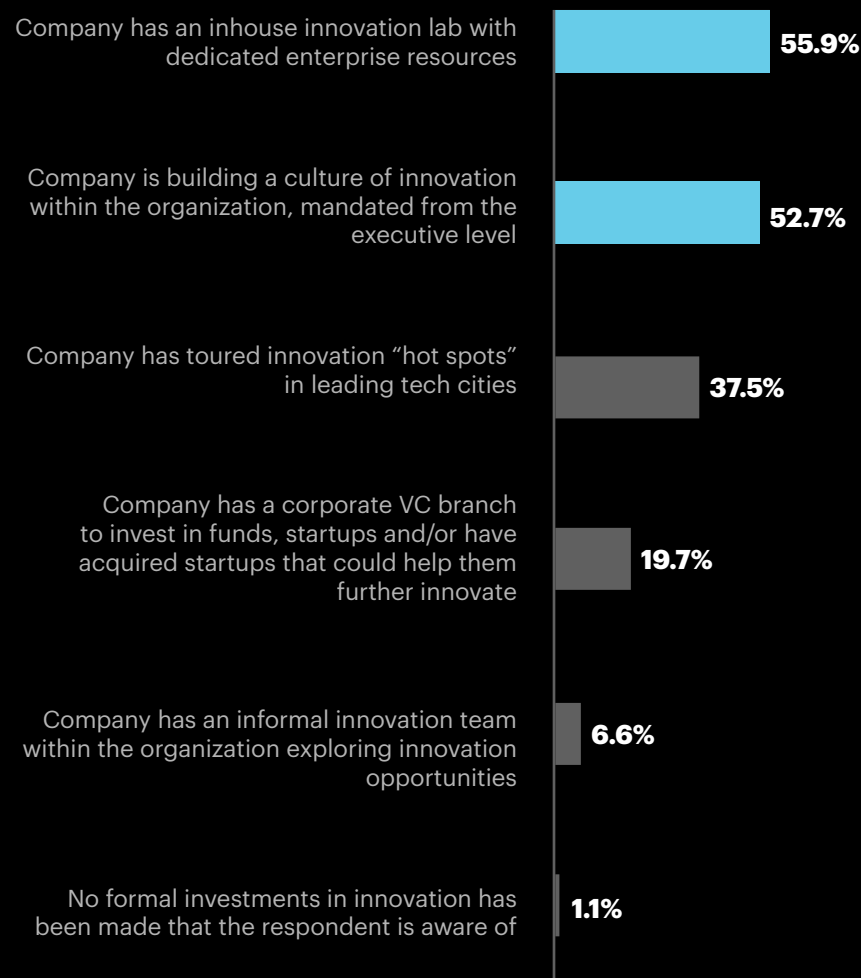
The sixth stage of digital transformation is Innovative and Adaptive. This final phase was added to the Six Stages model in 2015 as a result of parallel research on corporate innovation with Capgemini.

Between the two research tracks, we observed that efforts in digital transformation and corporate innovation are increasingly intertwining. As such, we extended this year's survey to understand how companies are investing in innovations related to digital transformation.

Corporate innovation is becoming an executive-level mandate operating in parallel, but separately, from digital transformation initiatives. In just a few years, it's clear businesses are making innovation a priority. While executives are learning as they go, there are already big strides in the maturity of innovation models. Innovation programs have to start somewhere. Many companies surveyed (37.5%) have sent executives on "innovation tours" in Silicon Valley and other technology hot spots around the world. These efforts help introduce stakeholders and decision-makers to alternative approaches to innovation and transformation. Exposure to entrepreneurs, technology giants, and investors often provides executives new perspectives that reveal new possibilities different from their day-to-day "corporate think."

FIGURE 9

TYPE OF ORGANIZATIONAL INVESTMENTS ON INNOVATION



What types of investments in innovation has your organization made? Check all that may apply., N= 528

Source: Altimeter Digital Strategist Survey, August 2017



Innovation labs and teams inject external ingenuity into operations.

As companies gain exposure to innovation ecosystems, often executives are compelled to build innovation labs with dedicated resources (55.9%) to advance new expertise, partnerships, and opportunities. 52.7% of those surveyed also are investing in developing a culture of innovation to spark new learning, creativity, and work among the incumbent management and other employees.

Innovation drives executives to upgrade expertise and better engage employees.

Corporate innovation continues to evolve. A growing number of companies are diversifying their investments beyond organizationally led innovation efforts by also establishing corporate venture-capital initiatives. In 2017, 19.7% of companies we surveyed had established a corporate venture capital branch to invest in funds, startup companies, and/or acquire startups to help them further innovate.

A high-contrast black and white photograph showing the silhouette of a person from the side, looking down at a smartphone. The person is positioned on the left side of the frame, with their head tilted down. The background is a bright, light-colored surface, creating a strong silhouette effect. The right side of the image is a solid dark grey/black area containing text.

Employee Experience is the Next Customer Experience

According to Gallup, 87% of employees worldwide are not engaged through official “employee engagement” programs.

Companies overlook the importance of employee engagement and experiences. Corporations whose employees are actively engaged outperform peers by 147% in earnings per share. And, leaders in customer experience boast of employees who are 1.5 times more engaged than those lagging in CX.

Linking employee experience to customer experience is growing in importance in digital transformation. Like customer-experience strategies, employee experience requires employee segmentation based on preferences, expectations, and aspirations.

Modernization of employee skillsets for a digital economy is beginning.

With EX emerging as an important pillar in digital transformation, customer-centric companies are elevating employee-engagement initiatives in a variety of ways. Their top priority is modernizing their workforce by cultivating existing and recruiting new talent and expertise.

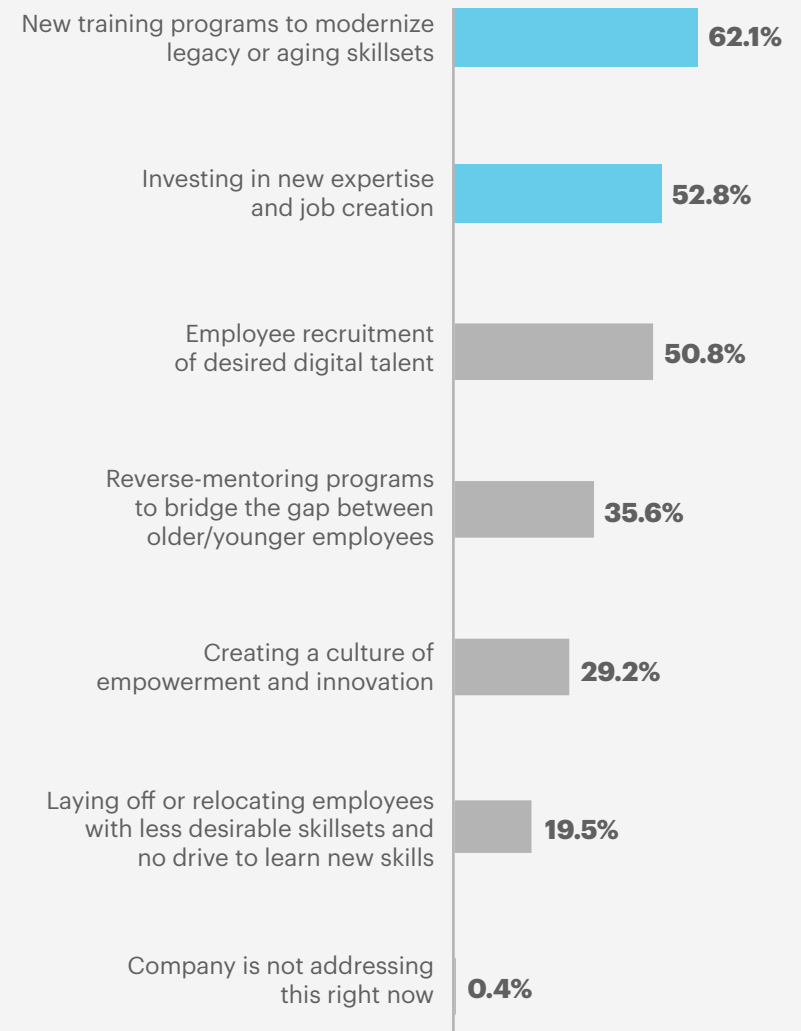
To make that change happen, 62.1% of companies surveyed are creating training programs to modernize legacy or aging skillsets. Yet, only 52.8% are investing in new expertise and job creation, while just 50.8% are recruiting specifically for desired digital talent. Also, it is worth noting that only 35.6% of companies are launching reverse-mentoring programs to bridge the gap between experienced employees and their younger colleagues. Clearly, companies have much work to do to bridge the gap between how they operate today and how they must execute tomorrow as employees' and customers' desires continue to change.

To some extent, innovation in employee engagement is taking shape through official corporate-culture programs. Then there are those organizations that are prioritizing innovation as a means to compete for the future while also digitally transforming. To do so, 29.2% of those surveyed are working toward creating a culture of empowerment and innovation.

Of course, as the need for expertise and literacy evolves, companies must evaluate human capital to invest in training and new expertise or in culling those with nonadaptable skillsets. Sadly, 19.5% of companies are eliminating jobs or relocating employees who possess less desirable skills and show no drive to learn new ones. This is a sensitive topic, but one that deserves greater attention in 2018 so that companies and employees with work experience, which is falling out of demand, can explore solutions.

FIGURE 10

ELEMENTS TO DIGITALLY ENHANCE EMPLOYEE EXPERIENCE



What are your top three priorities in digitally transforming the employee experience? Select up to three., N= 528

Source: Altimeter Digital Strategist Survey, August 2017

Steering Committees on the Front Line of Managing Digital Transformation

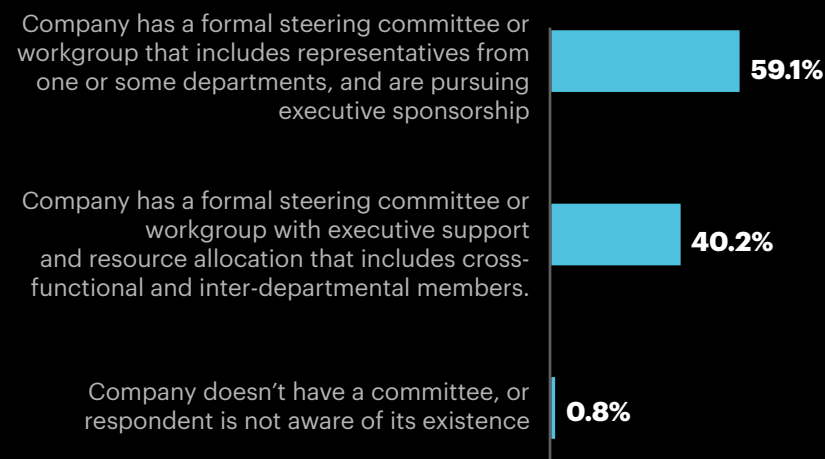
The earliest forms of digital transformation take root in pockets and corners throughout a business as change agents experiment with digital possibilities in their own work sphere.

As they learn and gain traction, they seek to enlist colleagues within their group and supporting business units. But, for digital transformation to accelerate and advance across the Six Stages fast enough to remain competitive in disrupted markets, much more than disparate, uncoordinated efforts is essential. Success requires an executive-sponsored, cross-functional team to manage and be accountable for the creation, progress, and impact of any digital-transformation roadmap.

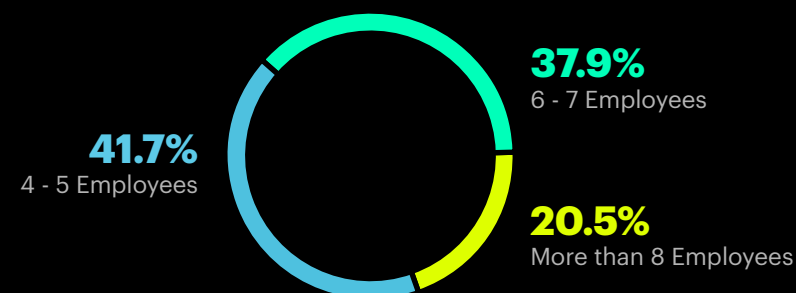
Effective digital transformation must emanate from executives' vision and mandate based on evolving customer and employee behaviors, expectations, and preferences. Steering committees operate under different names depending on the organization. Common names we heard in our research over the years include: digital transformation steering committee, workgroup, and digital leadership team.

FIGURE 11

ROLE OF COMMITTEE IN DIGITAL TRANSFORMATION



NUMBER OF FULLTIME EMPLOYEES IN THE COMMITTEE



How would you describe your organization's digital transformation steering committee or formal workgroup?, N = 523

How many fulltime employees are involved in the steering committee or workgroup?, N = 523

Source: Altimeter Digital Strategist Survey, August 2017



Cross-functional steering committees often lack executive sponsorship.

We found that 59.1% of companies surveyed in 2017 rely on a steering committee or workgroup with cross-functional representation. While this number is noteworthy, these groups lack formal executive sponsorship. This number is up from 53% in 2016.

Companies further along the Six Stages, albeit a smaller but steady 40.2%, employ formal, cross-functional committees with executive support and resource allocation.

Expect to see the number of formal committees increase in 2018, because workgroups are not only growing in number, they share a common goal of officially leading digital transformation across the entire organization. That takes sponsorship, budget, and resources from the top.

The number of full-time employees participating on committees seems to depend on the operational structure of the organization. Between 2016 and 2017, the numbers haven't changed much. In 2017, 41.7% of companies we surveyed have four to five full-time employees on the committee. Larger groups with six to seven full-time employees (37.9%) or more than eight (20.5%) are also notable. Last year, the percentages averaged between four to seven members.

Progressive Companies Employ Cross-Functional Steering Committees

In 2017, 98.7% of the time IT is a “must have” for any digital transformation workgroup.

This represents a jump from 63% in 2016. Of the top 10 corporate departments, marketing (75.9%) or other customer-facing groups represent a majority of stakeholders managing digital transformation efforts.

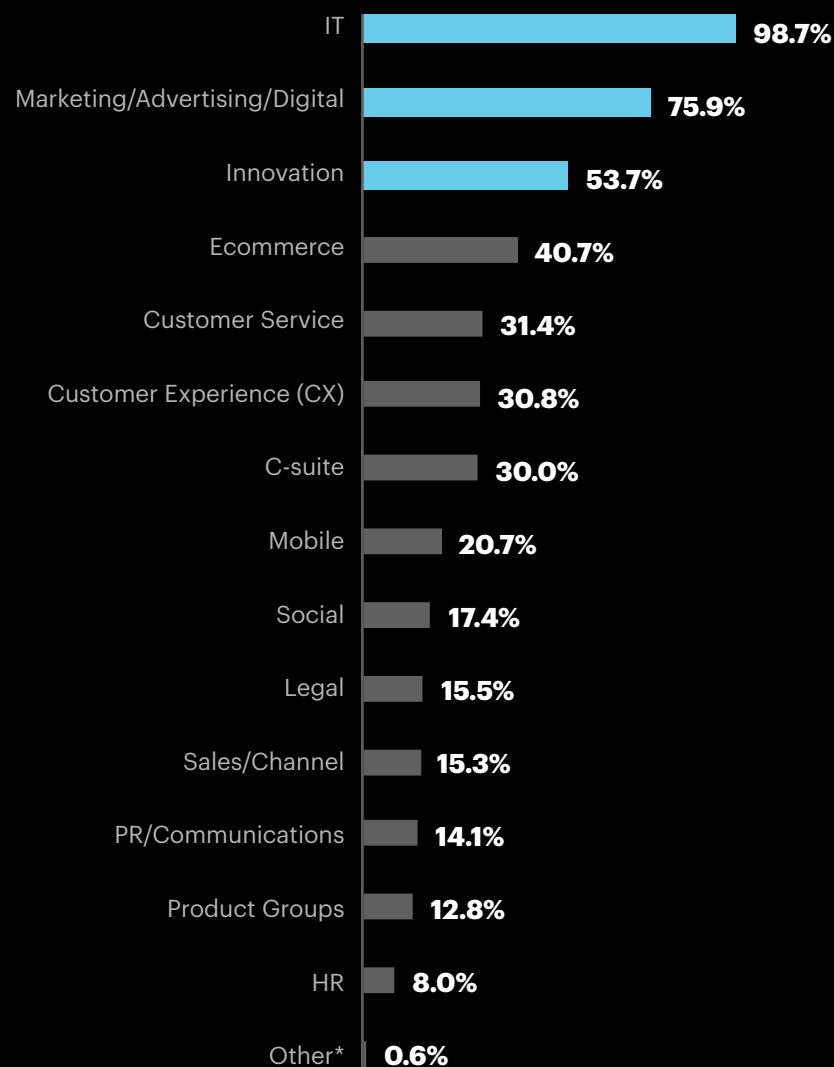
New in 2017 is the appearance of the corporate-innovation arm of steering committees, ranking third (53.5%). This result is likely because businesses are accelerating innovation initiatives. There is overlap in these efforts, and having a seat on the working group ensures alignment internally and in external efforts.

Notably, the legal department is rising in the ranks to play a role in managing digital transformation, up from 6% in 2016 to 15.5% this year.

Digital transformation committees are, for the most part, actively engaged. Most meet twice a month (45.5%) or monthly (36.4%). IT, marketing, and other innovation groups usually form the nucleus of DT steering committees, signifying a growing unity and the importance of aligning technology, innovation, and customer engagement.

FIGURE 12

DEPARTMENT REPRESENTED IN THE COMMITTEE



*Logistics, Operations

What departments are represented? Check all that apply., N = 523

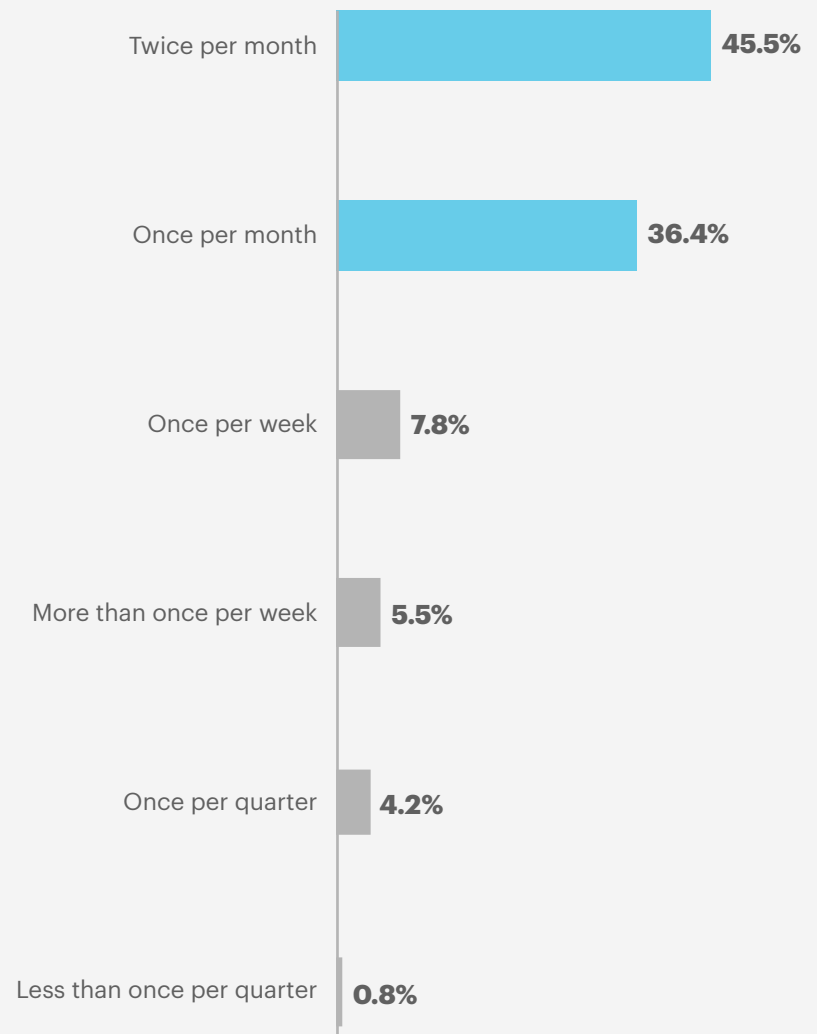
Source: Altimeter Digital Strategist Survey, August 2017

Centers of Excellence educate to scale digital transformation.

We found many businesses act early to form Centers of Excellence (CoEs) that serve as education hubs to help business units, brands, and other functions understand important new trends and possibilities. These are distinct from steering committees or workgroups. While helpful, CoEs tend to guide and govern learning and experimentation. They serve as a resource to the rest of the organization, meanwhile committees lead formal transformation efforts. Committees also report to the C-Suite, and in some cases a company's board, to communicate progress of initiatives, next steps, and future plans.

FIGURE 13

FREQUENCY OF DIGITAL MEETINGS



Approximately how often does the formal workgroup or digital transformation steering committee meet?, N= 528

Source: Altimeter Digital Strategist Survey, August 2017

The Budget for Digital Transformation

New to our research this year is the addition of financial queries to track the evolution of dedicated digital-transformation budgets and metrics.

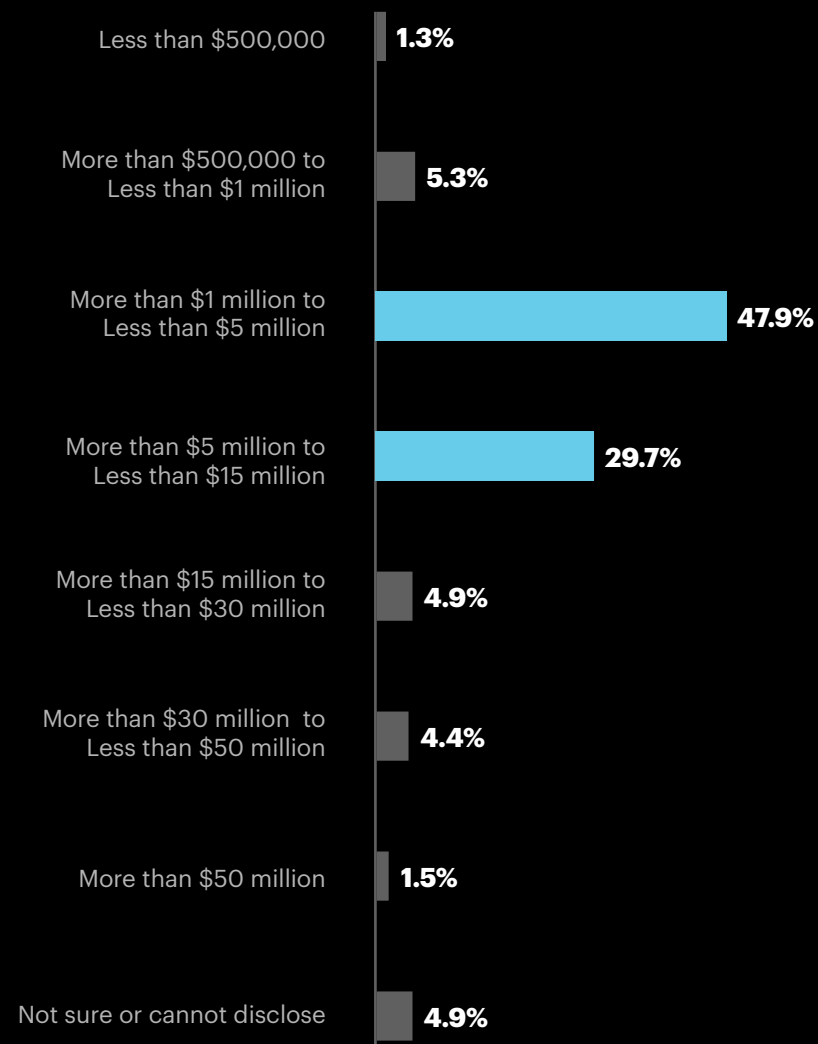
Overall, these budgets are modest yet show signs of growth as more businesses realize improving their competitiveness through digital transformation helps thwart market disruption.

In 2016, 69% of businesses surveyed reported the lack of data or the ability to demonstrate return-on-investment as a top challenge to justify the value of digital transformation. Additionally in 2016, 62% of businesses also stated the “lack of budget” as a top challenge. Budgets seem to have improved. Only 30.5% of business in 2017 chose “lack of budget” as a top challenge. Yet, this year digital transformation still is viewed as a cost center by 30.9% of the businesses surveyed.

The vast majority of digital transformation initiatives operate with modest budgets between \$1 and \$5 million (47.9%). This level reflects a common, conservative perspective of digital transformation and the exploration of costs versus potential ROI. Meanwhile, 29.7% of companies are spending upwards of \$5 to \$15 million annually. As digital transformation becomes more recognized as a competitive advantage, we expect budgets will increase in 2018 and 2019 to pay for necessary technologies, expertise, and resources to stay in pace with change and accelerate innovation.

FIGURE 14

ESTIMATED ANNUAL BUDGET FOR DIGITAL TRANSFORMATION



Please estimate your annual budget for digital transformation efforts. As a reminder, your response will be anonymous., N = 528

Source: Altimeter Digital Strategist Survey, August 2017

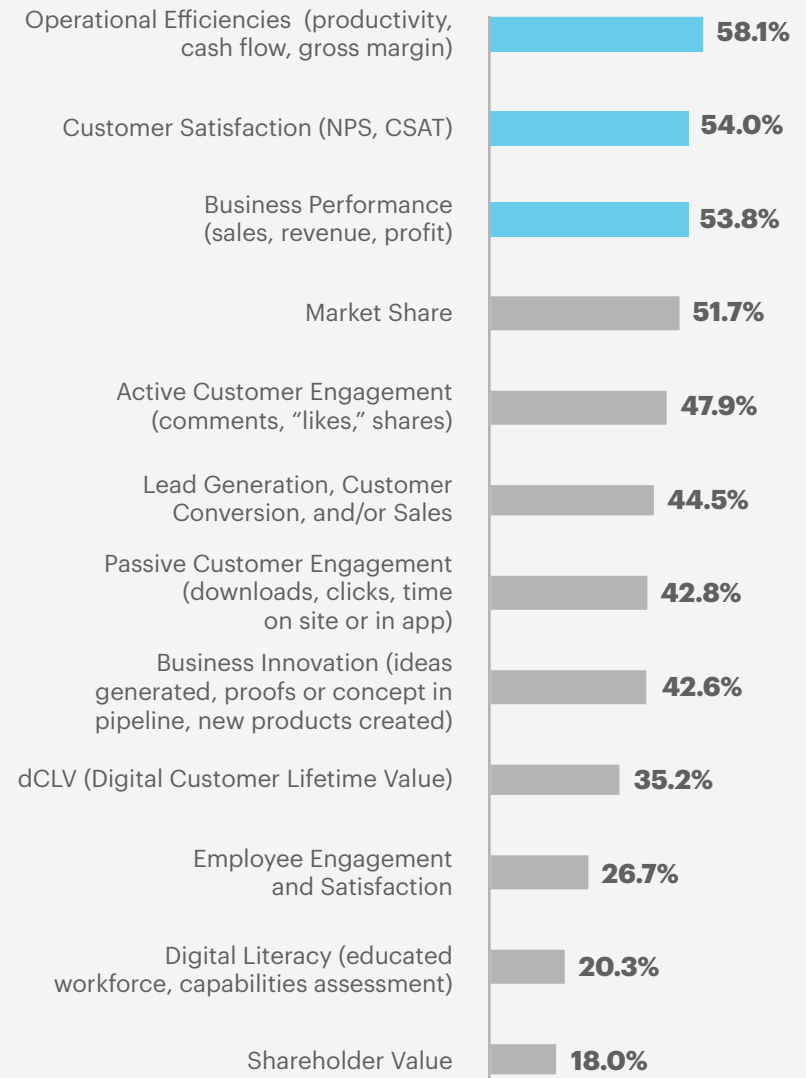
Metrics maturing to demonstrate business impact, validate digital-transformation efforts, and urge support.

Dedicated digital-transformation metrics are emerging to track strategic investments. In our earlier research, we noticed preliminary metrics reflect the specific corporate departments focused on digital transformation initiatives. As digital transformation spreads throughout an organization, metrics evolved. For example, we observed in our 2016 report that digital transformation was measured by a blend of business performance, operational, marketing, and customer metrics (e.g., Customer Satisfaction Score (CSAT), Net Promoter Score® (NPS), web traffic, productivity, revenue, and CX). This combination indicated that companies were balancing localized digital transformation Key Performance Indicators (KPIs) with cross-functional ones.

For digital transformation to excel through the Six Stages, executive support and budget depend on the link to ROI. In 2017, strategists are applying a business lens to capture and report business impact of digital transformation efforts. The top four metrics above 50% are focused on deriving digital transformation's effect on the bottom line. Eight out of the 12 top metrics (or 66.7%), tie directly to a business' ROI.

FIGURE 15

METRICS USED TO MEASURE DIGITAL TRANSFORMATION



What metrics does your organization actually measure today related to digital transformation?, N= 528

Source: Altimeter Digital Strategist Survey, August 2017



Measuring Business Impact of Digital Transformation

58.1%

Operational Efficiencies
(productivity, cashflow,
gross margin)

54%

Customer Satisfaction
(NPS, CSAT)

53.8%

Business Performance
(sales, revenue, profit)

51.7%

Market Share

44.5%

Lead Generation

42.6%

Business Innovation

35.2%

Digital Customer
Lifetime Value

18%

Shareholder Value

There also are new entrants this year as we opened up the research to account for EX and corporate innovation. Employee engagement and satisfaction was listed in the top 10 metrics, with 26.7% of businesses tracking this metric to measure digital transformation.

Measuring the impact of business innovation also was ranked among the top 10, with a whopping 42.6% of participants stating that they are linking “ideas generated, proofs of concept in pipeline, new products created, etc.” to digital transformation measurement.

Digital transformation is much more than the sum of its parts. It's more than investing in digital technologies and adapting to a digital economy. It represents an opportunity for companies to modernize business and operational models to stay competitive.

During the past three years of tracking the state of digital transformation, companies show signs of progress. They're focusing on understanding the evolution of digital customers and employees. They're investing in technologies, processes, and experiences that better cater to customer and employee expectations and behaviors. Teams are forming in organizations to champion and collaborate on key initiatives. Companies also are demonstrating that innovation is critical to competitiveness.

At the same time, digital transformation is progressing slowly and not yet penetrating deep within organizations to change corporate DNA from a legacy-based to a more agile approach. The workforce is not yet versed in the ways digital-device use is changing customers' and employees' preferences and behaviors. Investments remain very limited and short-term in focus. Corporate culture is largely risk-averse and not yet empowering new thinking and pursuits.

Every industry faces disruption. Digital Darwinism favors the adaptable. This fact makes digital transformation a critical opportunity and a viable threat. Change requires bold vision and innovation not only to adapt, but also to establish new value propositions and competitive advantages in a dynamic economy.



**Looking
Forward**

Companies must look beyond digital technologies and drive business innovation with a human-centered approach. People (customers and employees) and their preferences, behaviors, and expectations continue evolving when disruptive technologies impact markets. Additionally, companies must explore current and future technology trends to become technology companies in their own right.

The State of Digital Transformation — 2017 highlights the early evolution through the Six Stages maturity model. These times demand urgency and acceleration of their efforts. Innovation and change management are critical partners for digital transformation initiatives. The combination introduces new business and operation models to expedite and escalate change across the Six Stages.

Progressive companies give priority to:

Executive Support and Engagement: Digital transformation requires top-down support and choreography to direct, facilitate, and sanction enterprise-wide initiatives.

Cross-Functional Leadership: An evolved enterprise is the result of collaboration across key stakeholder groups that are accountable for leading and managing initiatives, identifying technology and human-capital requirements, measuring progress, and reporting to the C-Suite and the board.

Modern and Agile Operational and Technology Infrastructures: Disruptive technology enables human-centered experiences. New IT models support agile infrastructures. Operational agility also is instrumental in managing and executing initiatives and requires new processes, systems, and workgroups.

Digital Transformation Roadmap: Critical and long-term cross-functional and localized initiatives are mapped and prioritized with RACI (responsible, accountable, consulted, and informed) models governing management, accountability, and execution.

Customers' and Employees' Experiences: Integrated and modern customer and employee journeys, engagement, and resulting experiences help guide and give purpose to digital transformation strategies and initiatives.

Market Insight: Applying AI, data, analytics, and social science to understand evolving customer and employee behaviors, preferences, and expectations.

Human Resources 2.0: Modernizing workforces and skillsets to compete in a digital economy requires investment in new expertise, digital literacy, training, and engagement programs, as well as updating or upgrading aging proficiencies and processes. To encourage growth, mature companies also are investing in a culture of empowerment and innovation.

Digital Transformation Metrics: Tracking progress and ROI at initiative, operational, and business levels helps companies focus on strategic learning, acceleration, and growth. Other key metrics focus on customer and employee engagement, satisfaction, and development.

Corporate Innovation: Accelerating innovation in parallel with digital transformation efforts introduces new opportunities for businesses to improve product development, acquire new talent and technical capabilities, optimize productivity, and identify new value and market opportunities.

ABOUT THE AUTHORS

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Brian Solis is a digital analyst, anthropologist, and also a futurist. Brian studies the effects of disruptive technology on business and society. More so, he humanizes these impacts to help people see people differently and understand what to do about it. He is an award-winning author and avid keynote speaker who is globally recognized as one of the most prominent thought leaders in digital transformation and innovation.

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ECOSYSTEM INPUT

For this report, Altimeter, a Prophet Company worked with Phronesis Partners to conduct a survey of 528 qualified digital transformation strategists and executives leading change within their companies. Respondents were from companies in varied industries, with more than 250 employees, in the United States, Canada, United Kingdom, France, and Germany.

Over the past four years, Altimeter has also conducted a series of executive interviews that informed this research, among other reports. We interviewed digital strategists and executives at organizations undergoing digital transformation efforts about their journey in adapting to the new digital customer experience.

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ABOUT ALTIMETER, A PROPHET COMPANY

Altimeter, a Prophet Company, is a research and strategy consulting firm that helps companies understand and take advantage of digital disruption. In 2015, Prophet acquired Altimeter Group to bring forward-thinking digital research and strategy consulting together under one umbrella and to help clients unlock the power of digital transformation. Altimeter, founded in 2008 by best-selling author Charlene Li, focuses on research in digital transformation, social business and governance, customer experience, Big Data, and content strategy.

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HOW TO WORK WITH US

Altimeter research is applied and brought to life in our client engagements. We help organizations understand and take advantage of digital disruption. There are several ways Altimeter can help you with your business initiatives:

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Altimeter creates strategies and plans to help companies act on business and technology trends, including ethical and strategic data use and communications. Our team of analysts and consultants work with global organizations on needs assessments, strategy roadmaps, and pragmatic recommendations to address a range of strategic challenges and opportunities.

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Engage an Altimeter speaker to help make the business case to executives or arm practitioners with new knowledge and skills.

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Retain Altimeter for ongoing research-based advisory: Conduct an ad-hoc session to address an immediate challenge or gain deeper access to research and strategy counsel.

To learn more about Altimeter's offerings, contact info@altimetergroup.com.