etventure

STUDY 2017

Digital Transformation and Cooperation with Startups

Preface

Today, virtually all business leaders across the US are aware of the importance of Digital Transformation – regardless of their industry.

However, how do these leaders rank their progress? What are they doing to digitally transform their businesses? How do their views align with findings from leading industry analysts?

In 2017, etventure partnered with YouGov, a market research firm, to explore these specific questions.

The results were surprising.

Fundamentally, our findings show that while most businesses give themselves high marks for Digital Transformation, they are actually focused on activities that drive only incremental change.

At the core of this contradiction is a misunderstanding – around the nature of true Digital Transformation versus incremental change.

We'll share our data and insights in the following pages – enjoy!

Lukas Bower
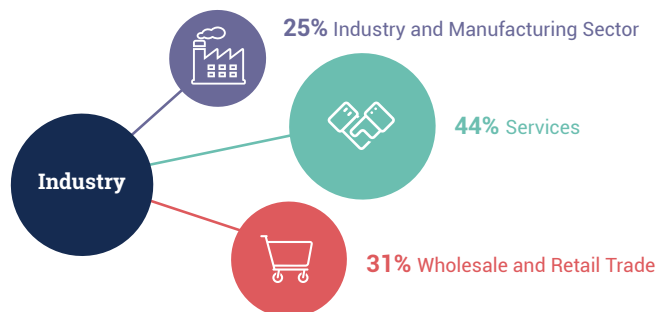CEO North America

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About the Study

The study "Digital Transformation and Cooperation with Startups" was carried out by the Digital Innovation Company etventure with the support of market research firm YouGov.

The aim of the study was to ascertain the current state of Digital Transformation in mid-to-large companies.

Target Group

Representative survey of large companies with annual revenues of $250 million per year or greater.

25% Industry and Manufacturing Sector

44% Services

Industry

31% Wholesale and Retail Trade

$250-500 Mil   **69%**

30% $500 Mil -1 billion

Sales Breakdown

1% > $1 billion

Topics

- Significance of digitization, progress and barriers
- Digital Transformation activities
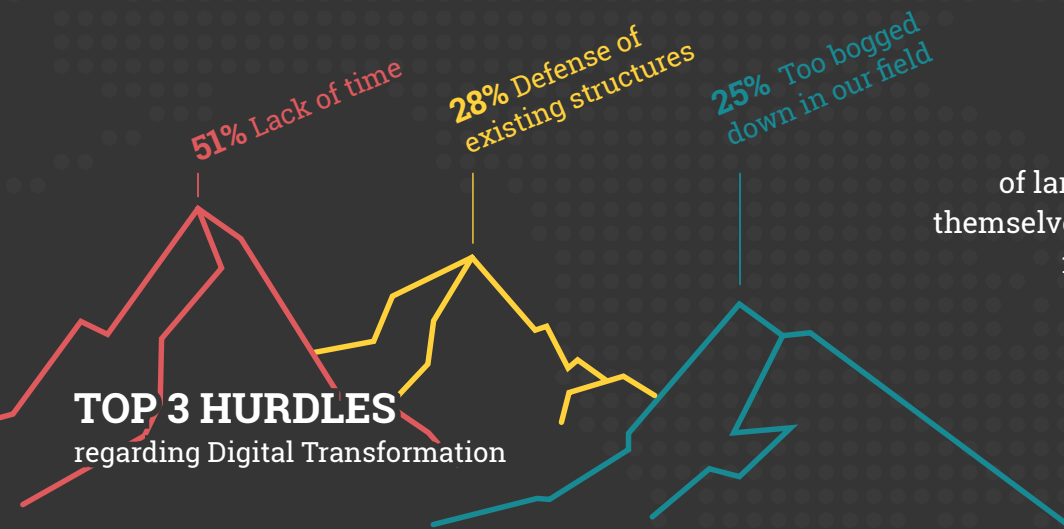- Impact on employees
- Cooperation with startups

Survey Methodology

Telephone interview

Survey Period

November 28, 2016 to January 24, 2017

DIGITIZATION IN THE UNITED STATES

51% Lack of time

28% Defense of existing structures

25% Too bogged down in our field

TOP 3 HURDLES
regarding Digital Transformation

85%
of large companies in the US regard themselves as **VERY WELL** or **WELL** prepared for Digital Transformation.

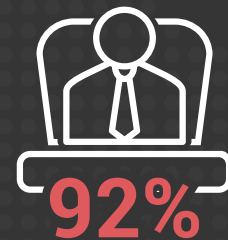**DIGITAL INITIATIVES** are managed

81% by IT

3% directly by CEOs

Startups are no threat to my business.

92%

90%
of US companies regard their employees as qualified for the challenges of digitization.

Cooperation with **STARTUPS**
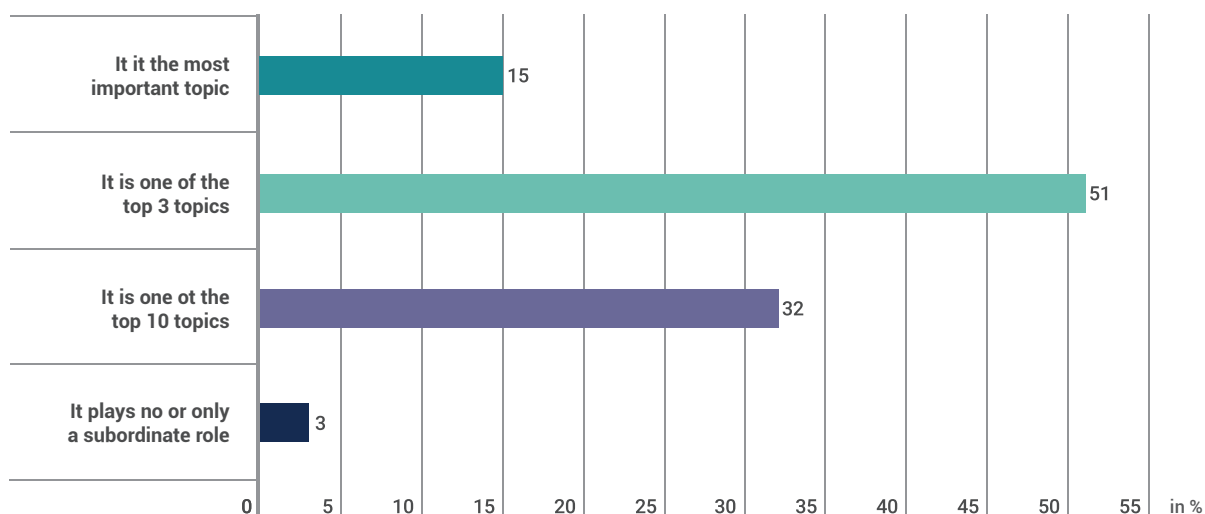
73% NO

12% NOT YET

13% YES

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DIGITIZATION SELF-ASSESSMENT

>> There are three levels of digitization: incremental, transformative and disruptive. Incremental digitization involves the digitization of existing business processes and customer experience. Transformative digitization involves new digital business models, while disruptive digitization is a radical reinvention of the existing business – a metamorphosis into something new. In this study, we define transformative and disruptive digitization as **true Digital Transformation** – and we don't see incremental digitization as transformation at all.

QUESTION

Which importance does Digital Transformation have on the agenda of your company?

It it the most important topic	15
It is one of the top 3 topics	51
It is one ot the top 10 topics	32
It plays no or only a subordinate role	3

0　5　10　15　20　25　30　35　40　45　50　55　in %

On a positive note, the overwhelming majority of companies surveyed rank Digital Transformation as critically important to their businesses. This aligns with the thinking of most analysts – who view Digital Transformation as a top priority.

In addition, 85% of companies surveyed see themselves as well-prepared – and 90% view their employees as capable of handling the challenges of Digital Transformation. Finally, 50% believe their Digital Transformation activities will make an impact on revenue or market share in less than one year.
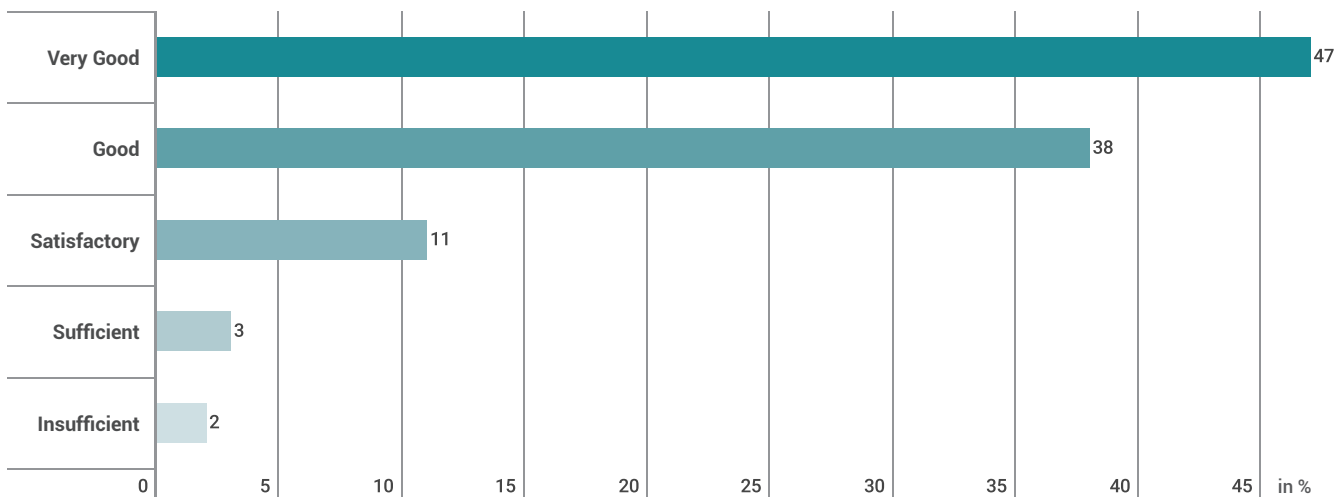
This is a remarkably optimistic point of view.

QUESTION

How well is your company prepared in your opinion for the Digital Transformation with the activities it has carried out up to now?

Category	Value
Very Good	47
Good	38
Satisfactory	11
Sufficient	3
Insufficient	2

in %

In fact, many businesses have a false sense of security. Activities classified as Digital Transformation are often only incremental changes – such as adding digital components to existing processes, improving the current Customer Experience (CX) through digital channels, consolidating infrastructure in the cloud, and other incremental improvements.

It is also unrealistic to assume that 90% of employees are ready for the challenges of Digital Transformation. In fact, many segments of the workforce lack the fundamental digital skills required to function in a fully digital workplace.
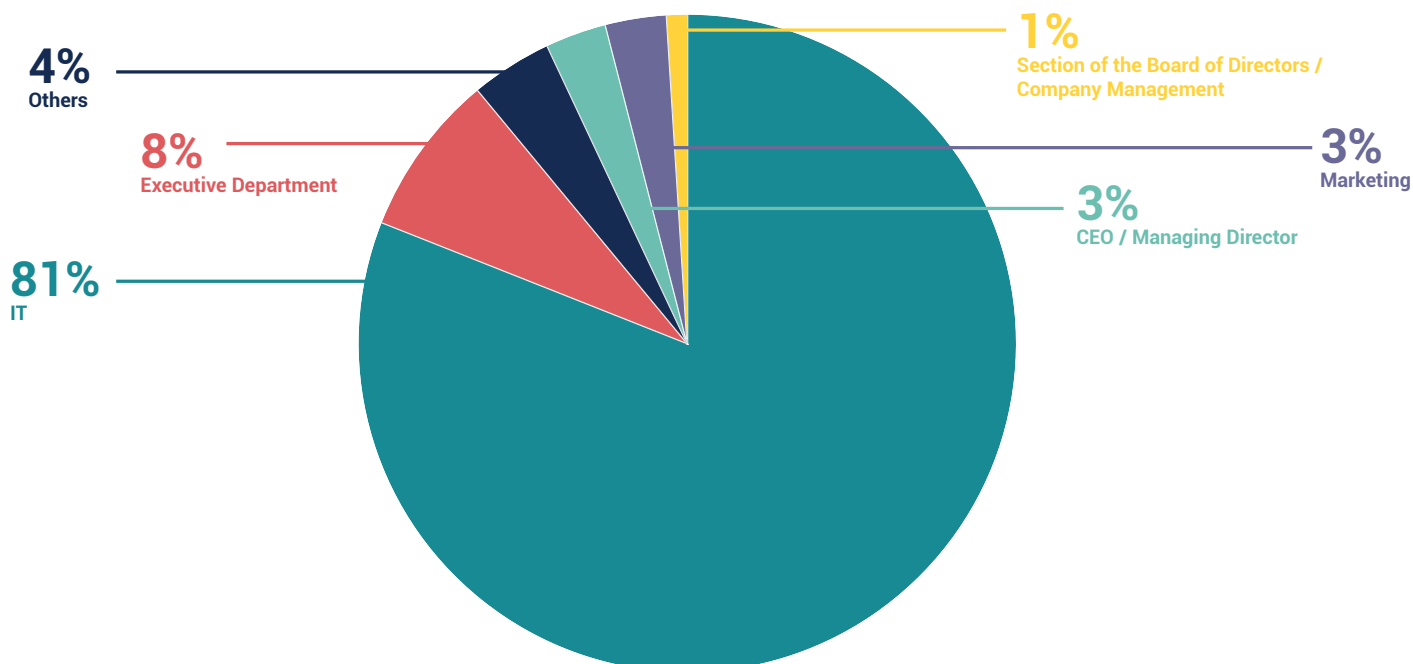
DIGITIZATION APPROACH, ACTIVITIES & CHALLENGES

» The approach and activities companies employ to drive Digital Transformation are crucial – and **not every choice is appropriate**. Who steers Digital Transformation activities? Is digitization carried out within the core organization alongside business-as-usual, or are activities transferred to a separate unit? What are the major challenges?

QUESTION

From where in your company are the activities
for the Digital Transformation mainly controlled?

4%
Others

8%
Executive Department

81%
IT

1%
Section of the Board of Directors /
Company Management

3%
Marketing

3%
CEO / Managing Director

Although survey respondents rank Digital Transformation as business-critical, only 3% of those surveyed link management of Digital Transformation with CEOs, and only 1% with the board. Instead, 81% of Digital Transformation initiatives are given to IT to execute.
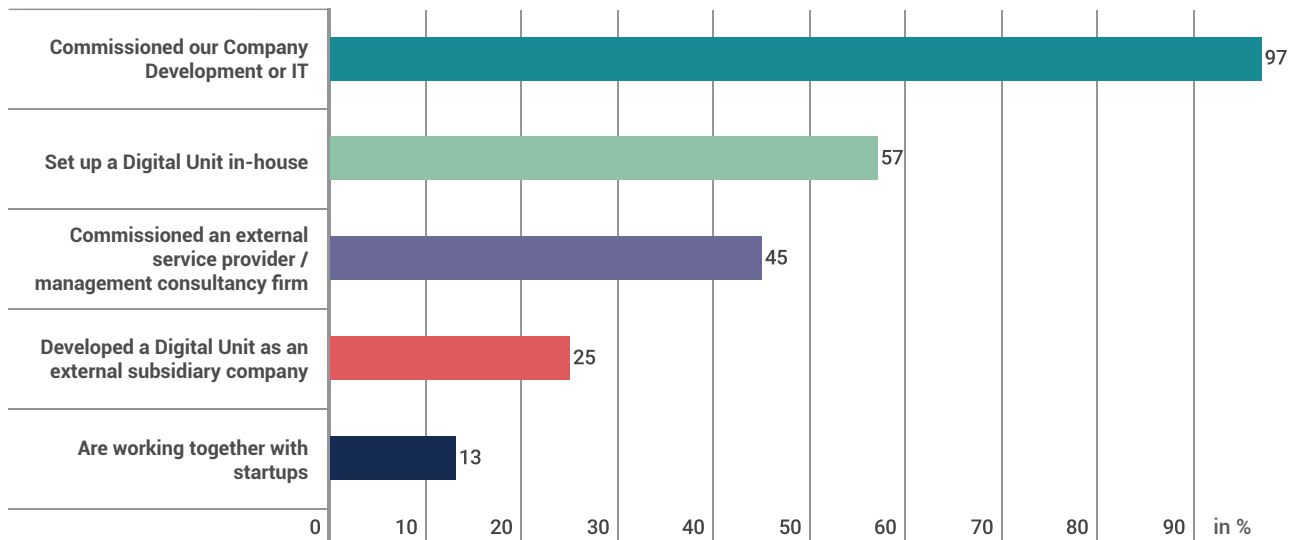
IT teams excel at mitigating costs and risks, and providing security. However, IT leaders often lack the organizational influence to drive the profound changes required for true transformation – as well as the entrepreneurial DNA needed

to recognize disruptive opportunities, and identify new digital business models.

QUESTION

Which activities are you currently using to shape Digital Transformation?

Activity	Value (in %)
Commissioned our Company Development or IT	97
Set up a Digital Unit in-house	57
Commissioned an external service provider / management consultancy firm	45
Developed a Digital Unit as an external subsidiary company	25
Are working together with startups	13

Nearly all survey respondents are currently undertaking some form of digital project, or have plans to do so. This is commendable. However, most are commissioning their internal development teams to perform transformation tasks, reinforcing the current reliance on IT.
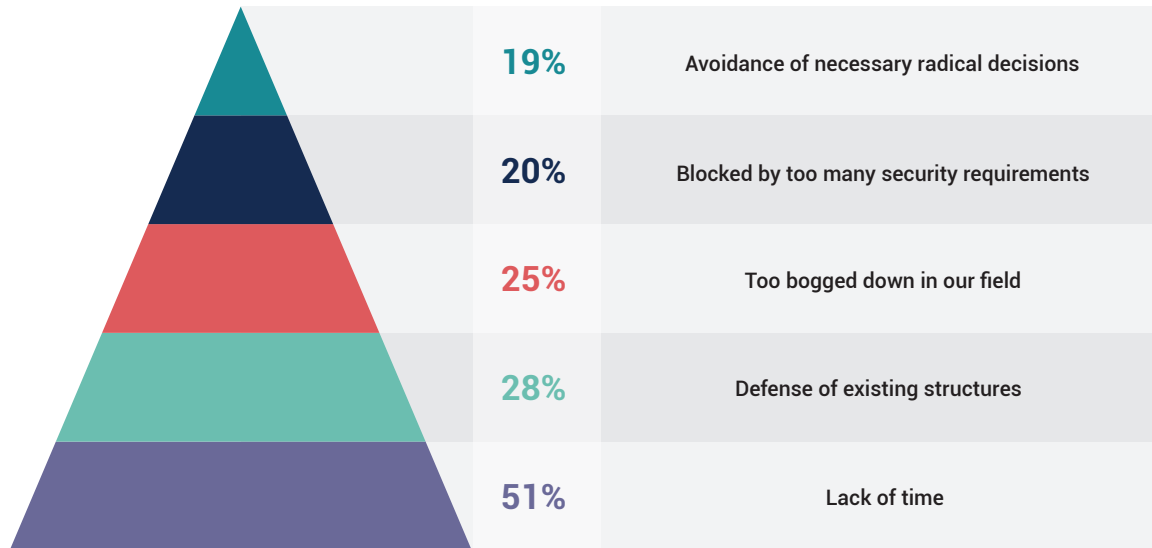
In spite of the high percentage of activity, the danger is that these plans are not transformational. Developing mobile apps, improving CX, moving infrastructure to the cloud and digitizing operations are all worthwhile initiatives, but they will not move the needle for a business.

True Digital Transformation is a metamorphosis – and requires taking a fundamental look at the current business, and re-envisioning it.

QUESTION

What in your opinion are the greatest hurdles that have to be overcome in your company with respect to Digital Transformation?

19%	Avoidance of necessary radical decisions
20%	Blocked by too many security requirements
25%	Too bogged down in our field
28%	Defense of existing structures
51%	Lack of time

When asked about the greatest hurdle regarding Digital Transformation, 51% of those surveyed answered "Lack of time". This shows another common pitfall for Digital Transformation – attempting to combine it with business-as-usual.

Common business structures such as Business Units and Product Segments provide control and accountability mechanisms for the C-Suite. Often, teams within these structures focus on quarterly KPIs – driven by a carrot/stick model that rewards meeting KPIs, and penalizes missing them.

This environment is poorly suited for Digital Transformation. True transformation cannot be a part-time exercise, that gets attention only after KPIs have been met. Instead, there must be an absolute focus on transformation – where risk-taking is rewarded.
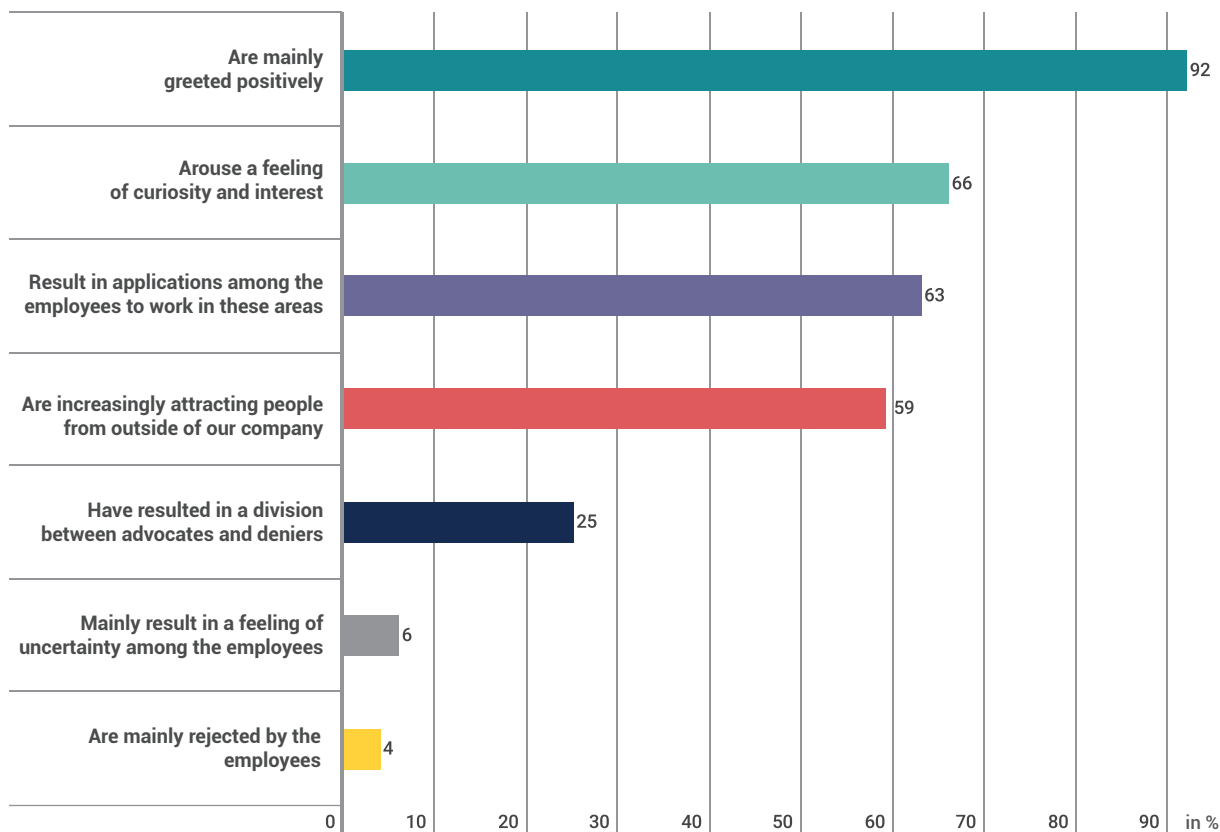
IMPACT
ON EMPLOYEES

» Digital Transformation isn't just about digital processes and business models. Instead, true Digital Transformation requires a **cultural change** – increased flexibility, flat hierarchies, new digital skills and more. Digital Transformation can only be successful if employees are open to change, and businesses have a plan to transform their culture. How well are employees and businesses prepared for Digital Transformation?

QUESTION

How are the employees in your company reacting to Digital Transformation processes?

Reaction	in %
Are mainly greeted positively	92
Arouse a feeling of curiosity and interest	66
Result in applications among the employees to work in these areas	63
Are increasingly attracting people from outside of our company	59
Have resulted in a division between advocates and deniers	25
Mainly result in a feeling of uncertainty among the employees	6
Are mainly rejected by the employees	4

The study shows that most employees are positive and open-minded regarding Digital Transformation. 92% of companies surveyed state that Digital Transformation processes are greeted positively by their employees. In addition, Digital Transformation seems to have the potential to attract people – from other areas of the company as well as externally. However, 25% of companies still see a division between digital advocates and deniers.

The importance of Digital Transformation is also reflected in responses regarding who will be affected by it.

The overwhelming majority (69%) of companies are convinced that Digital Transformation will affect every person in the company – not just specific departments.

QUESTION

Which are the employees who will be mainly affected by the measures associated with the Digital Transformation in the coming two years?

69%
All employees

24%
Specific departments, e.g. IT

5%
The middle management

3%
The top management level
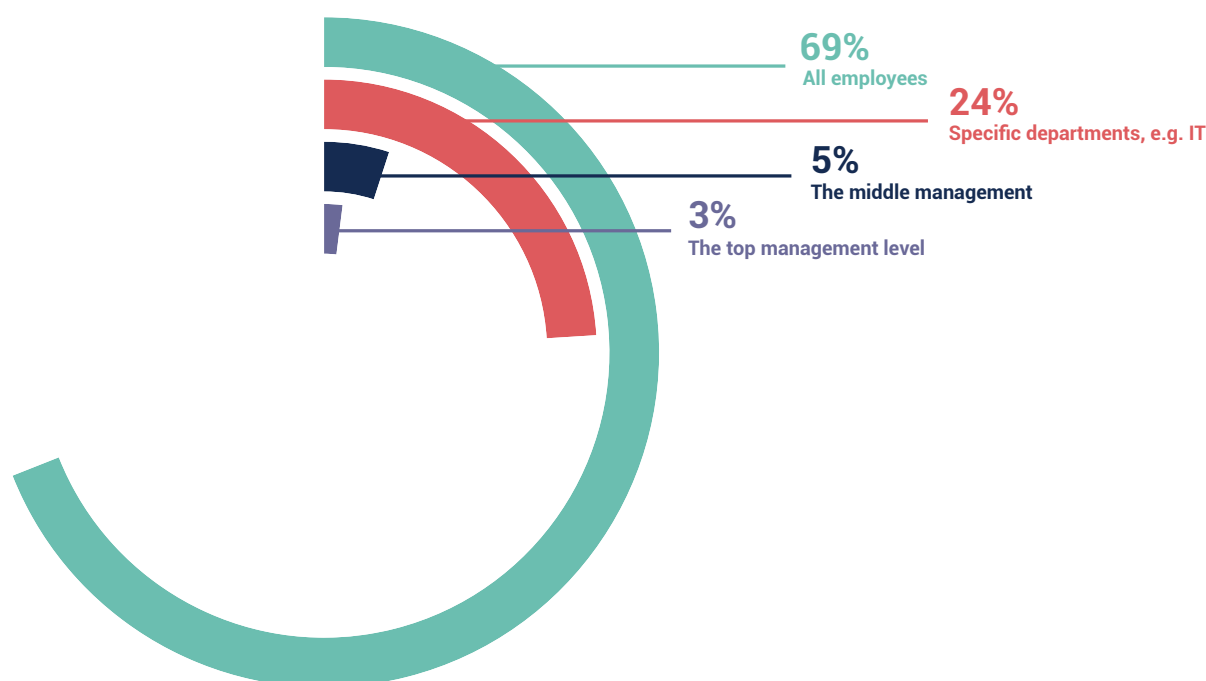
While employees are positive about Digital Transformation and appreciate it is business-critical, a deeper understanding of Digital Transformation's impact is lacking.

Specifically, many employees view Digital Transformation as a means to make their current job easier. Once again, this illustrates the gap in understanding between true transformation (metamorphosis) and incremental change (improvements to the status quo).

What is missing is an appreciation for how true transformation might lead to a fundamental shakeup of the business – with a significant impact on employees at all levels.

Complacency is dangerous for businesses in this area. Forward thinking businesses should have at least a broad idea around how to accommodate a radical change – and transition their employees to a digital workplace in an orderly fashion. Specifically, businesses need to start training programs now, to ensure their workforce is fully prepared for an all-digital workplace.
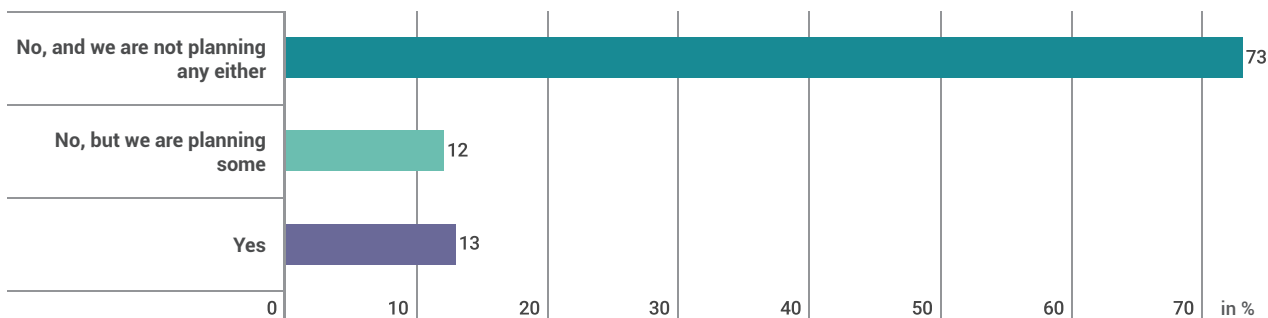
COOPERATION WITH STARTUPS

> While many businesses put all their energy into driving Digital Transformation themselves, another way of coping with Digital Transformation is to cooperate with the **masters of Digital Transformation** – startups. Startups can provide access to new technologies, fresh business insights, and innovative methods – all "out of the box", and ready for businesses to use right away. However, do companies recognize these potential advantages? How effectively are businesses working with startups?

QUESTION

Do you have any programs in place to work with startups?

No, and we are not planning any either	73
No, but we are planning some	12
Yes	13

in %

92% of respondents do not see startups as a threat to their business, and 73% of those surveyed have no current or future plans for startup cooperation.

Why is this?

One reason may be the way in which startups attack new markets. Often, they focus on a niche, stealthily building a loyal following.

Alone, small startups are not a threat to many traditional businesses – especially while they are in an early growth stage. However, the sheer number of startups represent a significant threat overall.

In addition, startups who are able to establish platforms and ecosystems in their industry can quickly become dominant. If they own the customer experience, customer data, or other

key components of the value chain, competitors may be forced to adopt their platform to remain relevant – losing a key advantage in the process.

These findings provide a window into the future – where many traditional businesses may fall by the wayside, replaced by innovators who deliver customers a superior experience.

QUESTION

What major opportunities and difficulties do you see when large companies work together with startups?

Opportunities

	in %
Access to new technologies	76
Generation of positive image effects	67
Learning from startup methods	66
Increased company growth	65
Faster and increasing number of innovations	64

Difficulties

	in %
Lack of understanding for processes in large companies	66
Differences in corporate cultures	64
Different security requirements	63
Incompatible working methods and structures	53
Unclear hierarchies in startups	45

0   10   20   30   40   50   60   70   in %

While business leaders fail to see the startup threat, they have a surprisingly accurate picture of what cooperation with startups will look like.

Cooperation between corporations and startups brings together two very different cultures – and this can be challenging.

However, the benefits can be profound.

One effective tactic is to place a mix of startup team members and forward-thinking corporate staff in a "protected space" – physically isolated from the core business. In this environment, the cross-pollination between cultures can occur at an accelerated pace – without distractions of business-as-usual. As the corporate staff working in this protected space acquire startup-style

competencies, they can rotate back into the core business – spreading their learnings across the business.

A knock-on benefit of this approach – businesses create an environment and working culture that is more attractive to millennials and Gen Z, which simplifies recruitment.

KEY TAKEAWAYS

On a positive note, survey respondents recognize the importance of Digital Transformation – **and have made it one of their top priorities**.

While the overwhelming majority of companies surveyed rank digitization as critically important to their businesses, many activities classified as Digital Transformation are really only **incremental changes**.

There is a heavy reliance on IT teams to deliver transformation initiatives – even though many IT teams **lack the entrepreneurial DNA** required for true transformation.

Although survey respondents rank Digital Transformation as business-critical, **only 3%** of business state their **CEOs** are directly involved with management of Digital Transformation.

Nearly all survey respondents are currently undertaking some form of digital project – but these projects are **rarely disruptive or transformational**.

Traditional business environments are poorly suited for Digital Transformation, as true transformation cannot be **a part-time exercise**.

Businesses lack an appreciation for how true transformation might lead to a **fundamental shakeup of business** – with a significant impact on employees at all levels.

The majority of businesses surveyed **do not see startups as a threat** – foreshadowing how many traditional companies may fall by the wayside, replaced by innovators who deliver customers a superior experience.

DIGITIZATION OUTLOOK

Incremental Improvement vs Transformation

George Westerman is the Principal Research Scientist for the Initiative on the Digital Economy at MIT's Sloan Center for Digital Business. One quote Mr. Westerman is known for:

"When Digital Transformation is done right, it's like a caterpillar turning into a butterfly – but when done wrong, all you have is a really fast caterpillar."

The findings from our survey highlight some warning signs about the state of Digital Transformation.

Fundamentally, business leaders seem to have confused incremental improvement with true transformation – which can be nothing short of a metamorphosis of their business.

Since business leaders are almost universally busy with incremental digital change, they are largely complacent about the existential threat to their business – and are not feeling a sense of urgency to truly transform.

In their 2017 predictions, Forrester Research notes *"CEOs and boards have become increasingly aware that making incremental changes to the business may not go far enough; doing too little or going too slowly may place their firms at risk as they compete in a customer-led, digitally driven market."* So, while leaders understand the threat – they believe their current activities are addressing it appropriately.

In their 2017 FutureScape, IDC states that *"We are at an inflection point ... digital transformation efforts will no longer be 'projects', 'initiatives', or 'special business units' for most enterprises. They will become the core of what industry leaders do and how they operate."* Unfortunately, the status quo from the survey seems to be more of the same - 'projects', 'initiatives', and 'special business units'.

The Startup Threat

In their recent white paper on Digital Transformation, the World Economic Forum states *"Hundreds of startups are now attacking traditional markets, thanks to the democratization of technology, increased access to funds and a rising entrepreneurial culture."*

Our survey indicates businesses are largely asleep at the wheel – lacking both a sense of urgency, and plans to address the startup threat.

In fact, corporate/startup collaboration is typically a win-win. Most startups are in dire need of what traditional businesses have – enterprise customers, market experience and reach. For traditional businesses, collaboration with startups enables them to get on the fast track to true transformation – with low risk.

ACTION ITEMS FOR BUSINESS LEADERS

⊕ Take an honest look at your digital initiatives. If they are all focused on optimizing how you currently do business, **you don't have a Digital Transformation program** at all.

⊕ Don't try and mix Digital Transformation with **business-as-usual**.

⊕ **Lead from the front** – and take direct, hands-on control of Digital Transformation.

⊕ Ensure your team has the **right DNA** for your Digital Transformational projects – entrepreneurial, fearless and driven.

⊕ Create a **protected space** where Digital Transformational can flourish.

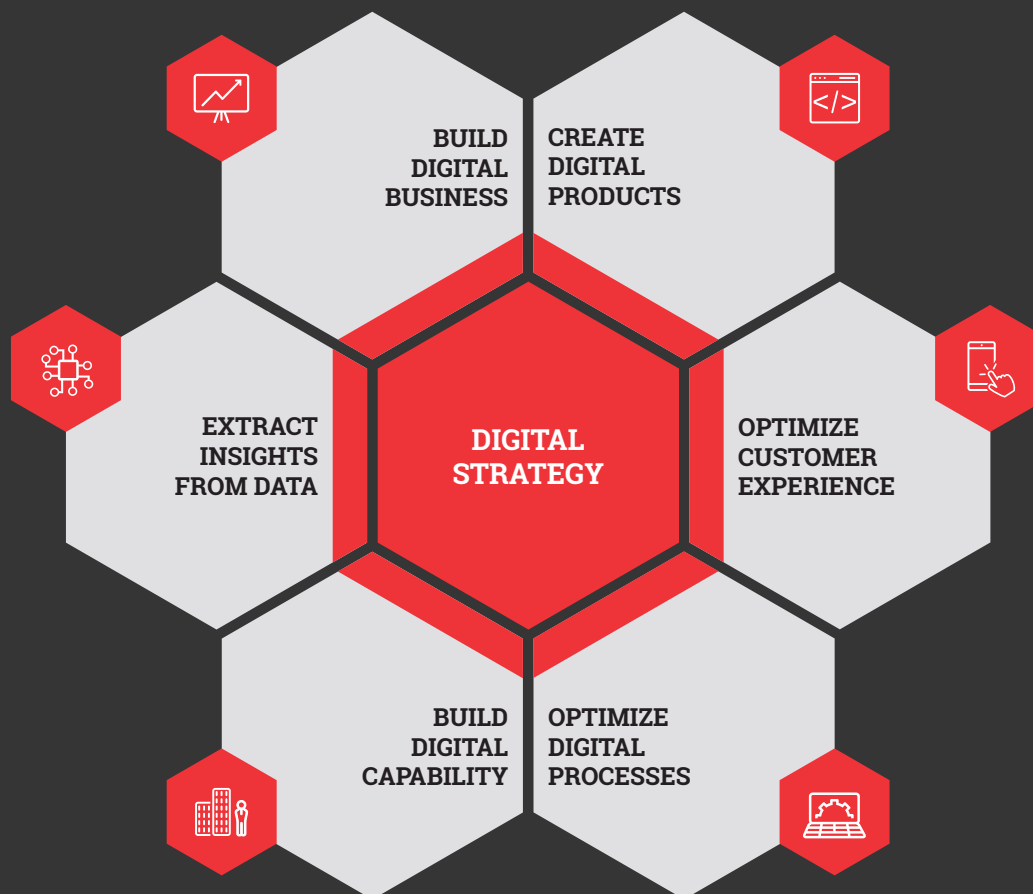⊕ **Engage with startups** – and get them involved in your business.

WE MAKE DIGITAL WORK

✓ Entrepreneurial   ✓ Hands-on   ✓ Quick

What We Do

BUILD DIGITAL BUSINESS

CREATE DIGITAL PRODUCTS

EXTRACT INSIGHTS FROM DATA

DIGITAL STRATEGY

OPTIMIZE CUSTOMER EXPERIENCE

BUILD DIGITAL CAPABILITY

OPTIMIZE DIGITAL PROCESSES

Our Team

250+
Entrepreneurs, Design Thinking Experts, Product Managers, Designers, Developers, Online Marketers, B2B Sales Managers, Operations Managers, etc.

50+
Own Startups, Cooperations & Corporate Partnerships

Our Results

3000+
Ideas validated

500+
Product tests for customers

150+
New digital businesses (60% B2B)

5+
Digital units

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Study online
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