



**DIGITAL TRANSFORMATION INVESTMENT
IN 2020 AND BEYOND:
THE TECHNOLOGY EQUATION**



TAKEAWAY #1

BLOWN TIMELINES ARE MORE PROBLEMATIC THAN BLOWN BUDGETS

Any project can go sideways on you, but digital transformation projects, which impact multiple departments and stakeholders and often have multiple contingencies, are mission critical. **An earlier research report** from IFS established that among respondents with failed digital transformation projects, 45 percent were feeling the effects for a year to two years, 33 percent were feeling the pain for two to three years and 11 percent were still hurting for more than three years to four years. Another 3 percent were still recovering.

In all, 28 percent of respondents said digital transformation projects have gone over budget and 33 percent say they have overrun the planned timeline.

Respondents indicate that failure in past projects makes management more reluctant to engage in future digital transformation efforts, with budget overruns topping the list of reasons management may put the brakes on critical projects at 28 percent and 26 percent saying blown timelines on past projects have made management more risk averse.

But, among companies who experienced timeline overruns, 40 percent said budgets were cut back in other areas, 35 percent said other projects were stopped, 32 percent said headcount was frozen and 31 percent said it deterred investment in similar projects.

This makes a great deal of sense when considering a digital transformation project that goes past schedule, and its impact on the business. A \$1 million project may run over budget even by 100 percent. But it still might not cost as much as a missed opportunity for a planned project launch that must be postponed because underlying systems are not ready, or damage to the brand caused by failure of departments or processes that impact customer satisfaction or reputation.

In order to survive and thrive, businesses are finding themselves **under increasing pressure** to adopt and implement transformational technologies like Artificial Intelligence (AI), the Internet of Things (IoT), mobile approaches like remote assistance—and, most importantly, to use them to rapidly change how they deliver value.

But despite best intentions and plans, some businesses continue to find that these projects don't deliver the value they promised—while others see it in spades. Understanding why these often complex enterprise IT projects succeed or fail then becomes central to unlocking the promise of digital transformation.

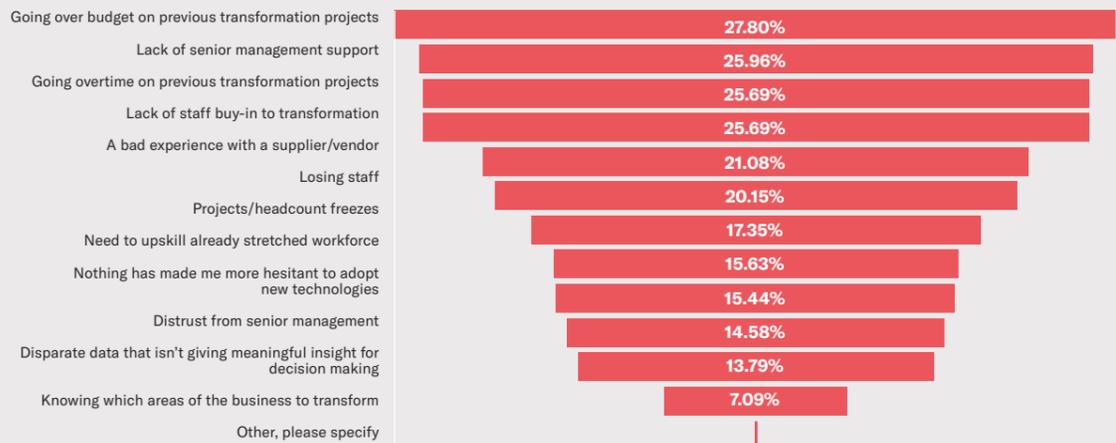
In the spring of 2020, IFS conducted a global study of 3,000 IT decision makers, C-suite executives and individuals working in operations in six markets. The survey instrument solicited insights about the digital transformation projects they have planned and those they have completed. **In an earlier summary**, IFS revealed a slight majority plan to increase spending on digital transformation despite the fact the sample was gathered during the COVID-19 pandemic. This summary extends the earlier analysis by looking at the technologies they plan to invest in and how past successes or failures with digital transformation have affected their business.

An industrial machinery manufacturer may embed sensors on equipment they sell to customers and use the resulting data flow to support an annual maintenance and operation contract, providing a new way to increase revenue. They might also use that data to charge for the equipment by output or duty cycles, revolutionizing how customers pay for their equipment and potentially increasing revenue even further.

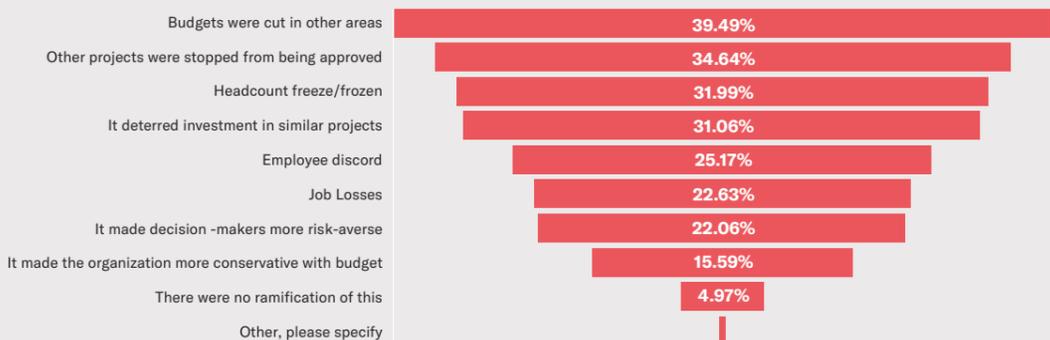
That manufacturer's service department may also use augmented reality technology to enable an expert in a central headquarters location to consult with those deployed on customer sites around the world. AI technology can automate decision making about when to dispatch a technician to a customer site, when to re-order parts, when to hire and more.

But this digital transformation process involves some inherent risk of project failure, which can sour a company on further investments. After all, nothing succeeds like success.

REASONS FOR DIGITAL TRANSFORMATION HESITATION



BUSINESS IMPACTS FROM TIME OVERRUN





EXPERT INSIGHT

MATTHEW KEMPSON
VICE PRESIDENT OF GLOBAL CUSTOMER SERVICES STRATEGY, IFS

“Agile software development can absolutely get a product ready for release to market on time, but to drive faster time to tangible value in an individual customer organization, it requires a specific agile project approach. An effective agile project methodology requires customers to be active participants in the process, making key decisions quickly and decisively as opposed to passive observers, sponsors and approvers as the vendor or a chosen services partner roll out a piece of software. Even commercial-off-the-shelf (COTS) solutions can require a vendor capable of understanding and then collaborating with a customer and their partners to define and deploying the ideal solution. Then they must, in an iterative process, refine the solution to drive ongoing measurable value. Can it lead to a faster delivery? Yes, absolutely and it can also lead to a better solution fit, but for it to succeed it also requires more collaboration with input, drive and leadership from the customer through the process, with full involvement and ownership from the customers’ business teams, including top level management.”



EXPERT INSIGHT

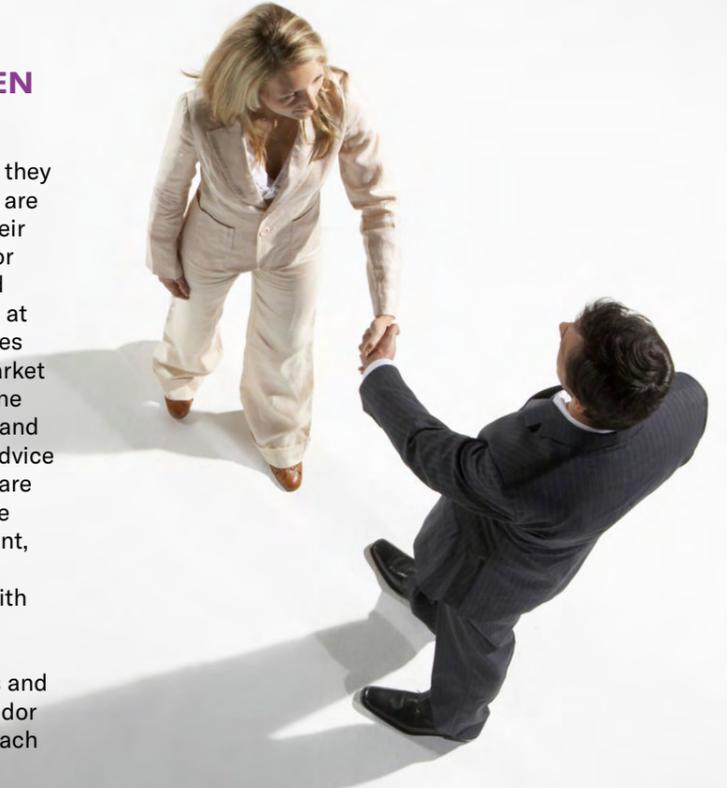
STEVE TREAGUST
VICE PRESIDENT, INDUSTRIES PROGRAM MANAGEMENT, IFS

“This research proves the adage that time is in fact money. There are, fortunately, ways to manage risk of timeline overruns. One way to do this is to work with somebody who has done something before many, many times, with the knowledge to not only plan a successful project but also create contingencies for when things do not go as plan. Think of the contents of your own risk register. People leave. Businesses change. Customers change. COVID-19 happens. There is always something to derail even best of plans.”
 ”Experience helps you understand not just how to get from A to B, but what to do if you find yourself at D.”

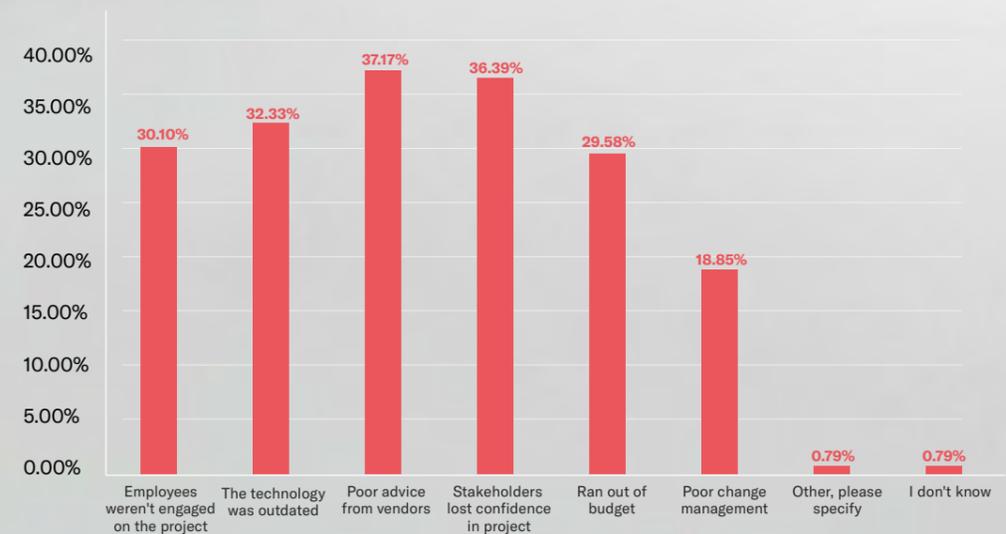
TAKEAWAY #2

CULTURAL ALIGNMENT BETWEEN COMPANY AND VENDOR

While it is not likely survey respondents would say they went beyond timeline or over budget because they are poor project managers, respondents stressed in their answers to our questions that the role of the vendor is central. In fact, poor advice from vendors topped the list of reasons for digital transformation failure at 37 percent. It has been noted in a number of studies conducted by IFS that companies in the middle market feel this pain more acutely than others. This is borne out here as companies with between \$550 million and a billion dollars seem more likely to identify poor advice from vendors as a failure factor. These companies are generally larger and more diverse and have multiple divisions and business models and a global footprint, when compared with their smaller counterparts. While they have all the complexity of companies with greater than a billion dollars in revenue, they have fewer resources to manage the intricacies of these projects. Caught in the middle with complex needs and limited resources, they are more dependent on vendor guidance and cannot validate and thoroughly vet each claim or recommendation.



REASONS FOR DIGITAL TRANSFORMATION FAILURE



POOR ADVICE FROM VENDORS



So how do they wind up saddled with vendors who may not be trustworthy? After all, respondents also said having a vendor whose ethics align with those of their own organization was the third most important trait in their selection process, just behind industry expertise at 32 percent and the ability to deliver long term solutions at 30 percent. And again, middle market companies were even more likely to identify this trait as central by more than 10 percentage points.

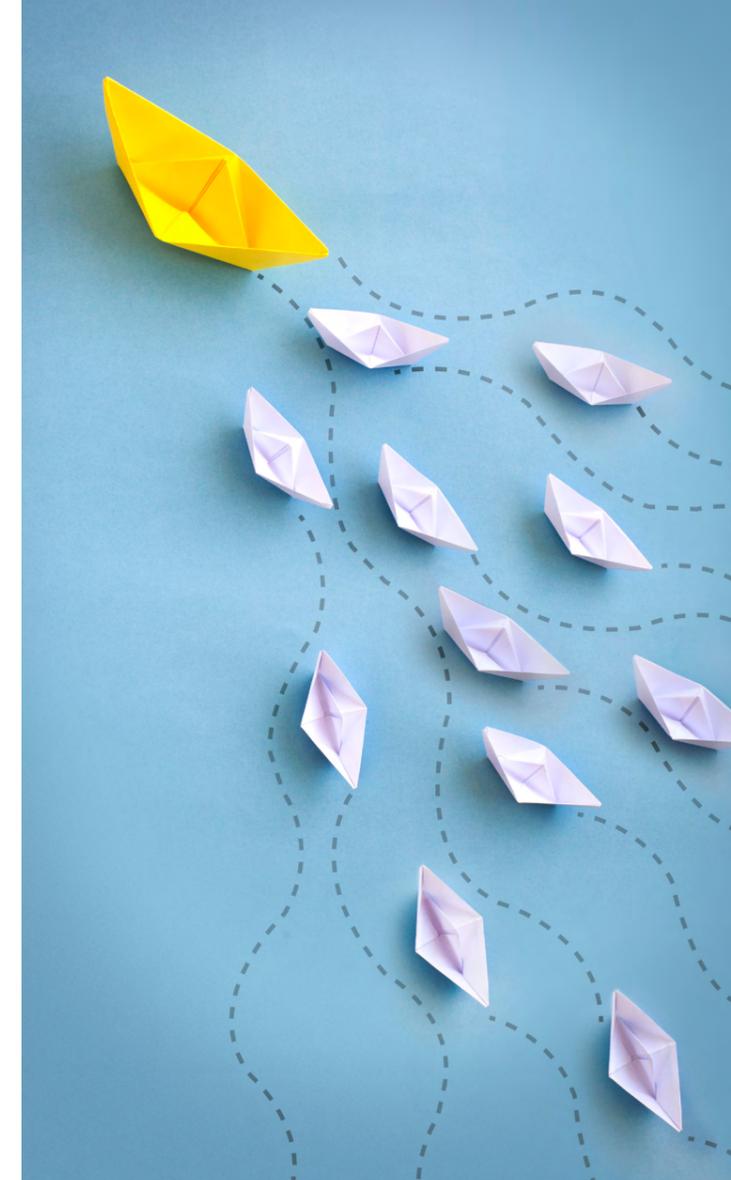
One reason these respondents find themselves working with vendors they perceive as less than trustworthy may be that selection teams are pressured by senior management and boards of directors to select vendors who are well-known but are unfortunately a poor fit for their actual functional needs. Again, companies in the middle market as well as those with greater than a billion dollars in revenue report this problem more frequently than smaller companies.



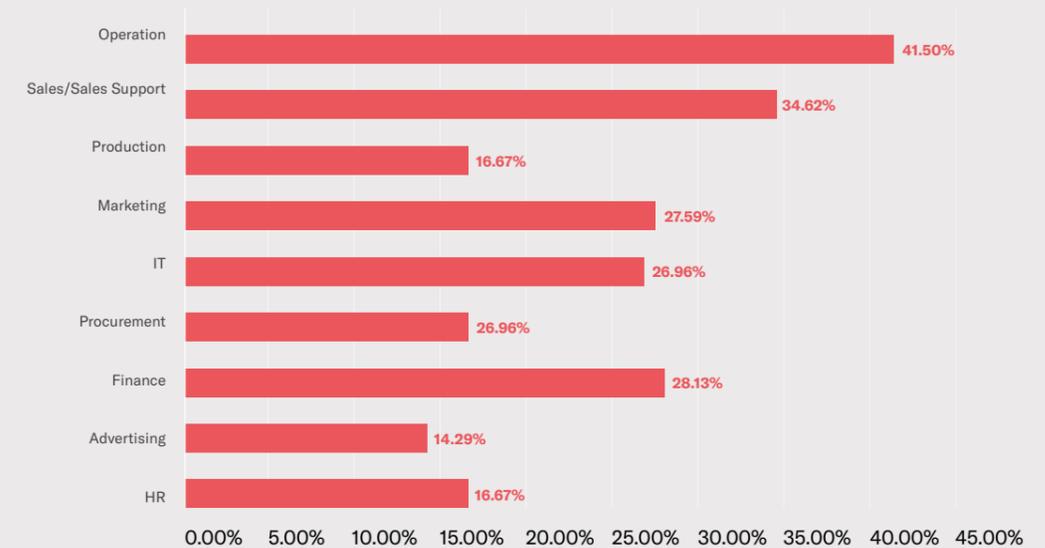
THE IMPORTANCE OF SPECIALIZATION

The number one desired vendor trait among study respondents was industry expertise, and this makes sense for a variety of reasons. The technology itself may have functionality or features designed to facilitate a specific business process—project risk management for construction for instance, or maintenance repair and overhaul and airframe maintenance for an airline. The vendor's personnel may also come to the table with deep industry skills or knowledge. In some cases, these features and expertise may enable a business to adopt industry best practices. In others, the technology and people the vendor offers may help a company conform a solution to their unique or proprietary approach endemic to their company.

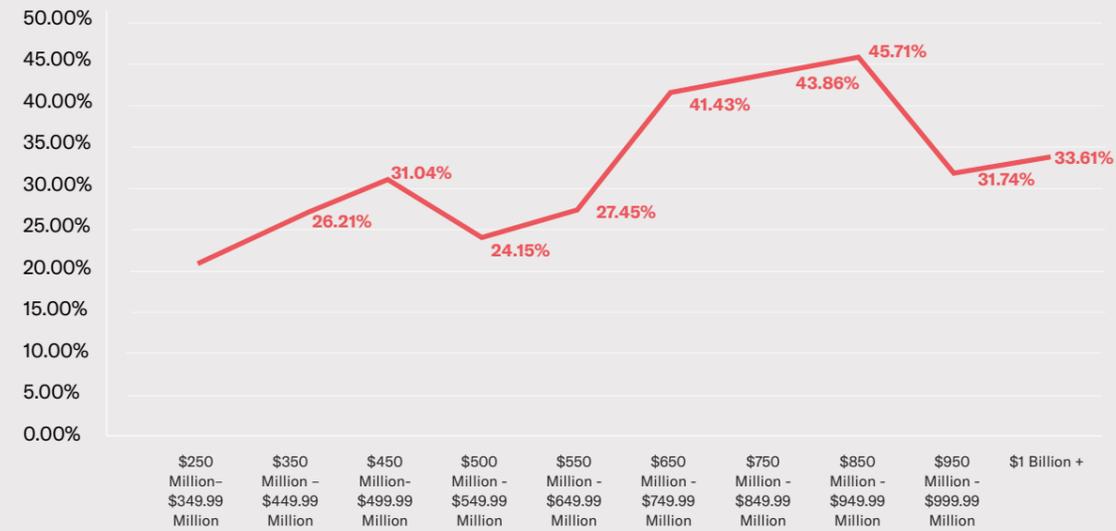
It is no surprise then that when looking at who in the organization values this expertise the most highly, it is the operations people, at 42 percent, who are on the front lines between very industry-specific business processes and the technology that supports them. Coming in second are sales and sales support, at 35 percent, who likely face industry-specific purchasing strategies and customer requirements.



IMPORTANCE OF INDUSTRY SPECIALIZATION FOR EACH ROLE



"ETHICS THAT ALIGN WITH OUR BUSINESS"



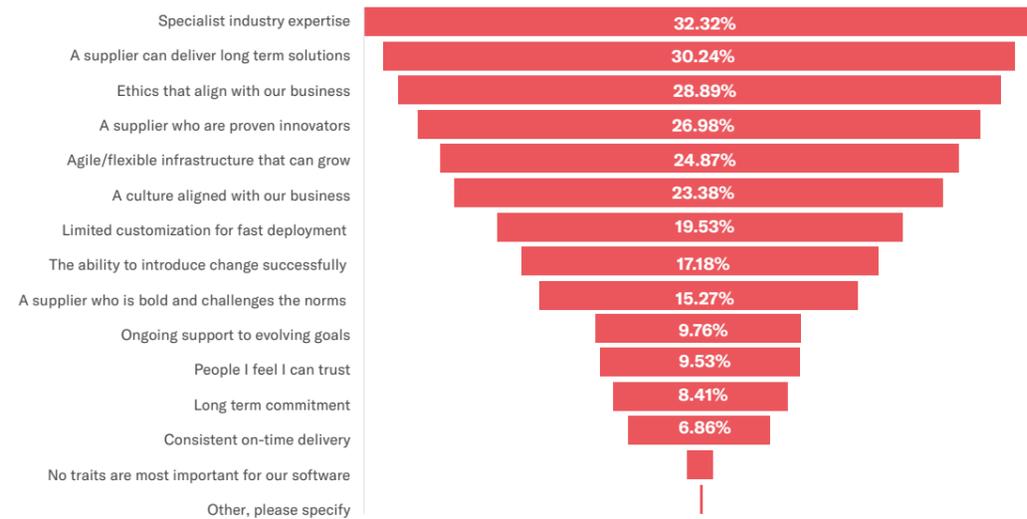
SUCCESS FACTORS AND TRUST

When it comes to critical factors for success, 45 percent of respondents identified technological fit, but the more frequently reported factor was the presence of clear objectives at 50 percent.

Only a quarter identified a collaborative relationship with the vendor as a success factor, which may be an indicator that such relationships are rare, rather than undervalued.



IMPORTANT VENDOR TRAITS



REASONS FOR DIGITAL TRANSFORMATION FAILURE

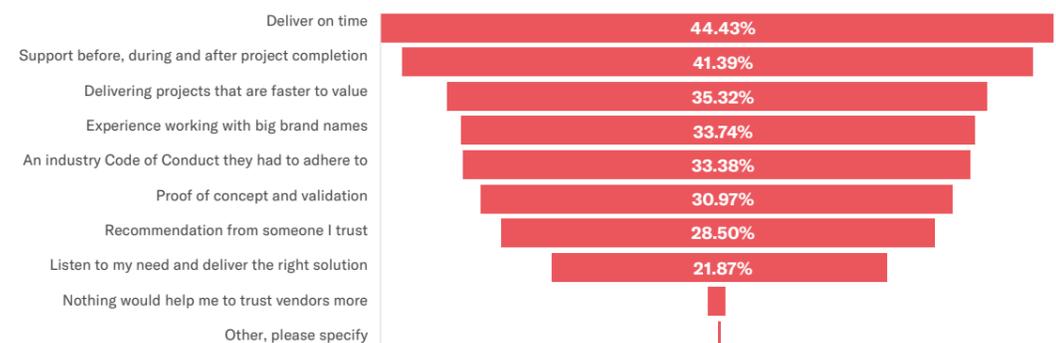


Achieving that trusted, collaborative relationship with a vendor can be challenging. And the single most important way vendors can grow trust is through on-time delivery, which was cited most frequently at 44 percent.

FORCED BY BOARD/SENIOR MANAGEMENT TO USE WELL-KNOWN VENDOR THAT IS A POOR FIT



VENDOR TRUST FACTORS





EXPERT INSIGHT

MICHAEL OUISSI
CHIEF CUSTOMER OFFICER, IFS

“A substantial amount of companies report getting bad advice from vendors, and that is indicative of poor marketing practices. I think it is probably caused in part by a lack of ownership of projects and a lack of clarity in identifying which problem is to be solved and how. Companies buying and implementing these technologies probably have a hard time getting reliable information on what to expect from their investment. That is because vendors have been over-selling a lot of these technologies too early, long before they really know whether they can deliver the results customers expect. There is more distrust of technology vendors on this front than two or three years ago, and it is contingent on the vendor community to win that trust back. At IFS, we are taking a systematic approach to providing good advice in the form of our business value engineering (BVE) methodology. We spend the time with customers going in to identify where they can realize value through the application of enterprise technology, how much value they can expect and then chart a way for them to succeed.”



EXPERT INSIGHT

MATTHEW KEMPSON
VICE PRESIDENT OF GLOBAL
CUSTOMER SERVICES STRATEGY, IFS

“Some technology and software vendors are following a strategy that channels post-implementation resources to the largest customers so those with the largest spend subsequently receive better advice and information. This can lead to other, often smaller customers being left to rely on ad hoc advice which could be coming from a salesperson, consultant or from elsewhere in the ecosystem. What may work better is when software vendors provide knowledge platforms, forums and channels where the basis of helping customers is not defined by the contract value but based on the nature of customers’ needs. This results in a collaborative relationship designed to satisfy what are often pressing needs. The value of any software is realized over a lifecycle of several years or even decades, so a failure to provide adequate access to information and resources can starve customer teams of innovation even if they have already licensed software that will solve their problems. When a collaborative approach to knowledge and expertise is applied, new and disruptive opportunities can appear which lead to true transformation, competitive advantage and in the case of a select few innovators in the industry, a way of continuously delivering incremental value for a predictable cost.”



EXPERT INSIGHT

STEVE TREAGUST
VICE PRESIDENT, INDUSTRIES PROGRAM
MANAGEMENT, IFS

“Ethics, industry expertise and the ability to deliver long term solutions are all mission critical. A vendor with deep expertise in your business and industry not only understands what you need now but can see where the industry is headed and what you will need 6, 10, 12 or 36 months into the future. They can give you additional advice to help you not just get to where you want to go, but where you will have to go next. Some companies just want to sell you stuff regardless of whether you really need it or not. But partnering closely with a vendor with strong ethics means you have a confidant who can first of all add value and second of all will not push something if it will not add value. What you need is intelligent advisory, and you only get that with longer term partnering because your vendor has skin in the game right along with you. They are not going to sell you something and run away.”

TAKEAWAY #3

BUSINESSES WANT INTELLIGENT TECH SO THEY CAN RUN SMARTER

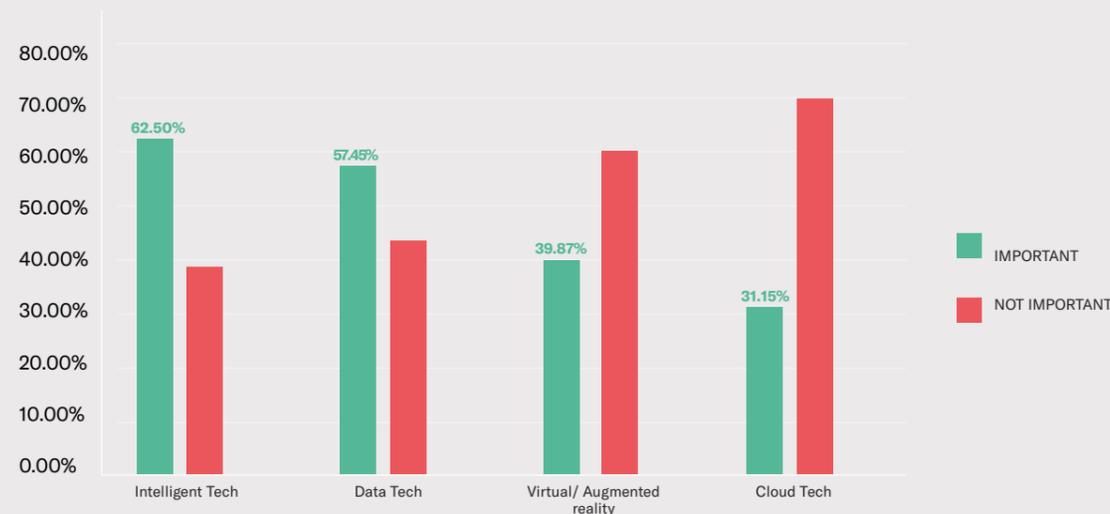
What technologies are respondents prioritizing? AI topped the list of technologies with 24 percent of respondents identifying it as a technology that will be dominant over the next two years. Combined with related technologies like machine learning (21 percent), cognitive services (17 percent) and predictive analytics (14 percent), business technology will be making more decisions and advising human managers and executives on more decisions going forward.

To drive additional insights, these technologies can be classified as:

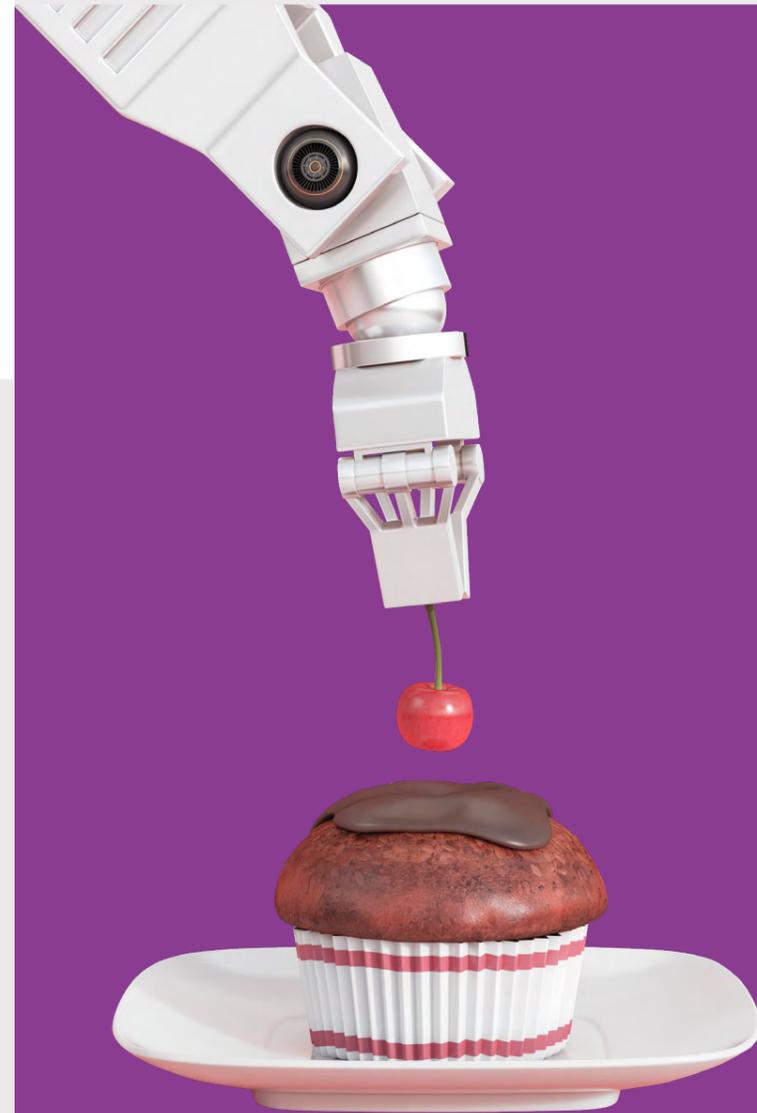
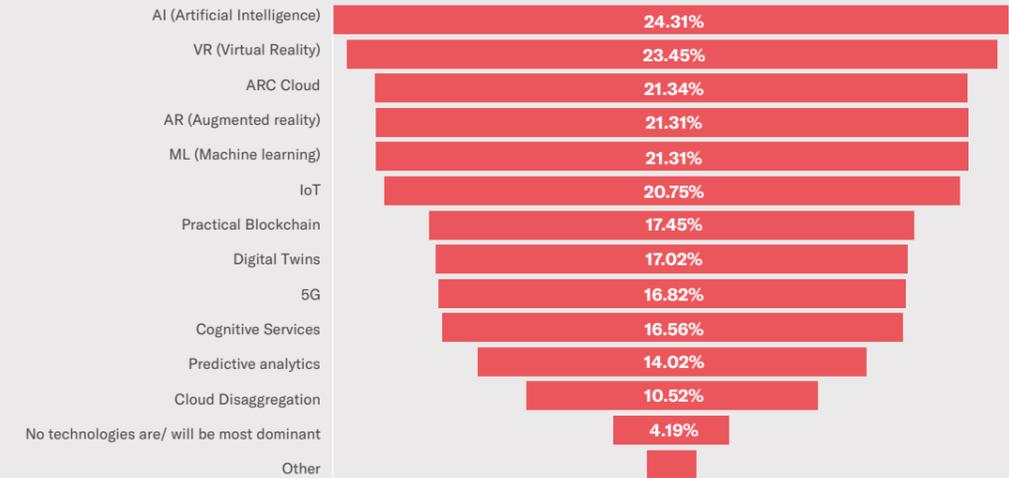
- Intelligent (AI, machine learning, predictive analytics and cognitive services)
- Cloud (cloud disaggregation, ARC cloud)
- Big data (blockchain, digital twins, IoT and 5G)
- Augmented reality/virtual reality

Intelligent technologies won the day, as 64 percent of respondents identified intelligent technologies as important followed closely by 57 percent for data technologies. Cloud technologies brought up the rear with 31 percent. Cloud is definitely a transformational technology, and 85 percent of businesses in a McAfee study said it helped them accelerate their business. One interpretation could be that respondents were far enough along on their cloud journeys they take this technology for granted, without perhaps thinking of the remaining transformational potential.

DISRUPTIVE TECHNOLOGIES BY IMPORTANCE



DOMINANT TECHNOLOGIES



EXPERT INSIGHT

BOB DE CAUX
VICE PRESIDENT OF AUTOMATION, IFS

“The way people think and talk about AI is changing rapidly. When I joined IFS in January of 2019, AI was the term we used, and what we thought about. Then we realized a lot of what our customers wanted was better classified as robotic process automation (RPA). But now, we just refer to it all as automation, which can take place within business processes in the business software system of record just like it can take place in industrial machinery. All of these categories—machine learning, AI, predictive analytics, cognitive services, are just ways for our customers to ensure their equipment, processes and even their people become more intelligent so they can create more value in new ways and drive the business.”



EXPERT INSIGHT

STEVE TREAGUST
VICE PRESIDENT,
INDUSTRIES PROGRAM MANAGEMENT, IFS

“At the heart of this, what we really have is data. All these different methods are trying to speed up doing things with data. Can we use AI to achieve financial close more quickly? That depends what you need to do to close the books. You of course need to close the registers and move into the next period, but it is not the automation of the process that is important as much as the completeness and quality of the data. Accounts payables may for instance have outstanding invoices. What happens then? Do you accrue that balance within the month? Or is it allowable and advantageous to move that expense to the next month in the interest of closing the books?”

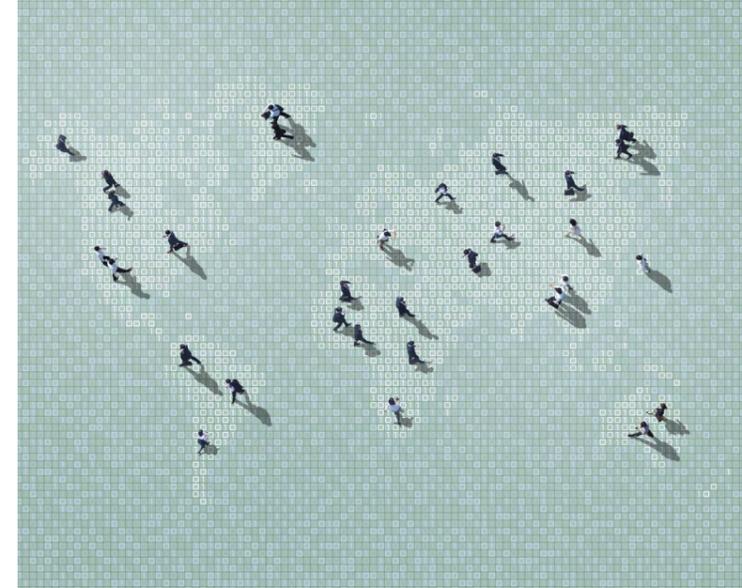
Complete automation may require you to change your processes to accommodate an intelligent approach. What we will probably see more of in the immediate term is RPA acting as a guide on the side, using intelligence to review thousands and thousands of rows of data and providing insight into what you might accrue. But for RPA or any intelligent technology to work, you need to first have a large enough data set to train those intelligent algorithms. You also need a data set that exhibits patterns, even subtle or complex ones, that algorithms can identify. So really, at first intelligent enterprise technology will help you drive value from the data your business already possesses and help your people make intelligent decisions. Over time, use cases will emerge for full automation.”

CONCLUSION

In the face of a global pandemic, business technology decision makers are still planning investments in transformational technology—with a special emphasis on technologies that add intelligence and automation to business processes or productive assets.

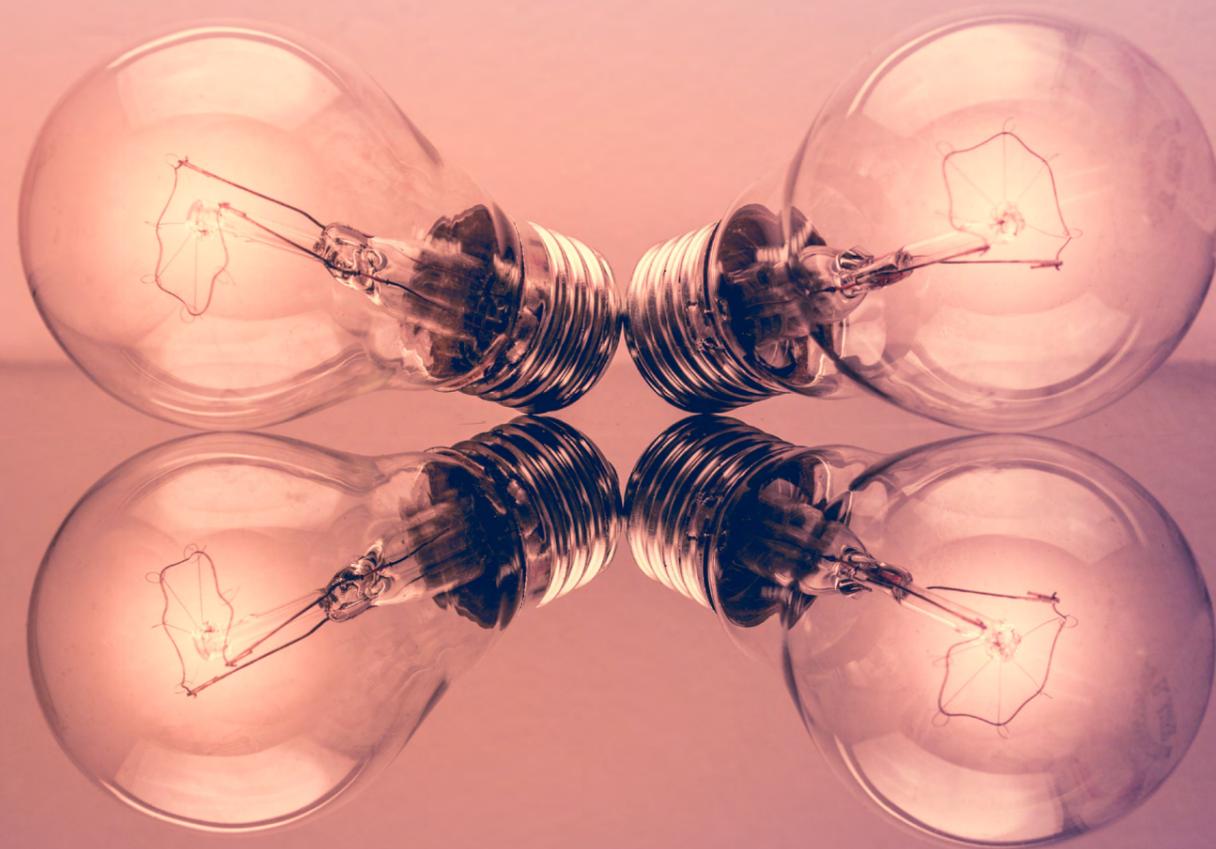
One of the best indicators of executive management’s willingness to invest is the success or failure of past digital transformation projects. Going over budget on past digital transformation projects may make an executive team more reticent to engage in subsequent projects. But projects that go past the timeline hold the business hostage and likely drive costs and business impacts well in excess of what would have been consumed by a budget overage. That is why on-time delivery is the most critical vendor trust factor.

The technology vendor has a central role to play in digital transformation project success, with non-tangibles including ethics and the ability to advise the customer with an eye towards actual customer benefits becoming more important as company size increases. But industry expertise, embedded in both products and vendor personnel, is the most frequently cited important vendor trait.



ABOUT THE SURVEY

The study is based on responses from 3,000+ executives in the UK (501), the US (519), Australia (505), France (503), Germany (498), and the Nordics (501). Respondents represent a broad industry scope, including manufacturing, construction, healthcare, IT/Telco, energy & utilities, and travel & transport. A vast majority of respondents are from companies in the midmarket (\$250M - \$500M) and enterprise market (\$500M+), taking into consideration annual turnover and spending power. Data was collected between April 8–May 5, 2020, by Censuswide.



ABOUT IFS

IFS develops and delivers enterprise software for customers around the world who manufacture and distribute goods, build and maintain assets, and manage service-focused operations. The industry expertise of our people and solutions, together with a commitment to delivering value to every one of our customers, has made IFS a recognized leader and the most recommended supplier in our sector. Our team of 4,000 employees and growing ecosystem of partners support more than 10,000 customers around the world to challenge the status quo and realize their competitive advantage.

Learn more about how our enterprise software solutions can help your business today at ifs.com

[#forthechallengers](https://twitter.com/forthechallengers)

WHERE WE ARE

AMERICAS

+1 888 437 4968

ASIA PACIFIC

+65 63 33 33 00

EUROPE EAST

+48 22 577 45 00

EUROPE CENTRAL

+49 9131 77 340

UK & IRELAND

+44 1784 278222

FRANCE, BENELUX AND IBERICA

+33 3 89 50 72 72

MIDDLE EAST AND AFRICA

+971 4390 0888

NORDICS

+46 13 460 4000