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Do You Really Know The Financial Impacts of Your Digital Transformation?

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Embarking on digital transformation holds enormous promise for your organization in the form of reduced costs, increased operational efficiencies, greater value to your customers, and future-proofing for tomorrow's business landscape. The bad news is that around 70% of digital transformation efforts fail.

Transformation often goes south when it's measured against subjective data or is limited in scope, applying to specific operations or practices but not accounting for an organization's broader growth strategy. But one reliable measure of transformation's success is market value—financial analysis can highlight its effects on market capitalization to help guide an organization's goals.

Getting digital transformation right is critical, paving the way for a greater potential boost to market cap—or, if it's done wrong, a risk of far greater loss.

Pathways to a Payday

Before you launch a digital transformation project, you should think long and hard about your strategy and what it might signal about your organization's growth and innovation potential, about how your organization's market value could be influenced by contextual parameters like industry and financial structure, and about the actions you can take as a leader to make a difference that produces a value gain.

Companies that articulate their digital strategy in financial disclosures are likely to boost their valuation—and citing the adoption of technology aligned with their strategy can double valuation. Yet only 34% of Fortune 500 companies show signs of thinking and acting strategically with their technology investments.
Conversely, when organizations embark on digital transformation that's not tied to a broader digital strategy or articulated in general terms, it can lead to market capitalization erosion—and three times less value than when there is a digital strategy.

Combined actions also shape value, for better or for worse. The right combination of actions can lead to as much as a 5% lift in market cap, which totals $1.25 trillion for Fortune 500s—but the wrong combination represents a 9% value erosion risk, putting $1.5 trillion in jeopardy.

Beware of Decelerators

Digital transformation efforts by two leading companies in the technology services and infrastructure sectors illustrate the risks of diving into a transformation project without the right financial measurement.

To transition to a more digital-driven strategy, one top technology-services provider invested heavily in a new cloud and experience technology platform for internet of things (IoT) business-to-business-to-consumer (B2B2C) services. Given how disruptive the strategy was perceived to be, the company developed a waterfall roadmap and established an adjacent frontier business in a “cool” market that would appeal to prospective hires.

While this might sound like a recipe for success, the initiative was doomed by a series of value decelerators, such as the maturity of specific technologies the organization proposed to implement and its own readiness to implement organizational change. Core managers were suspicious of the venture from the start, partners for the platform business were too few to scale, and the waterfall approach could not hold. Before long, the CEO left mid-project, and the adjacent business is now history.

Boxed In

When a large capital market-listed infrastructure company decided to overhaul its legacy IT system, it focused its strategy on a single innovative digital technology vendor and its mostly out-of-the-box solution.
Despite some of its leaders’ serious doubts that the vendor could deliver on an enterprise-wide solution, the company forged ahead. The plan had anticipated that the out-of-the-box solution would cover up to 90% of the organization’s requirements, but the reality was closer to 30%—leaving the organization with the need to customize more than 70% of the transformation. This reality drastically stretched development

timelines and budgets and created a demand for skilled workers. Management pulled the plug and fired the vendor before implementation had started.

After a year of regrouping, the company shifted strategy—instead of relying on a single vendor, it chose a best-of-breed portfolio of cloud-based solutions, setting the business case as a mostly self-financing vehicle by onboarding a large system integrator that would replace the legacy systems at a 30% lower cost. A digital transformation payday remains years away, but the new plan is progressing much better than the original strategy.

Sound Strategy

But when digital transformation goes right from the start, the value added can be significant.

One technology hardware company—according to its customers, employees, and financial statements—leads its competition with a digital strategy of making its products more software-defined than others in its sector. The company's CEO leads its transformation strategy, viewing digital as the great compounding investment in any business, driving the value of its product offers and being integral to its delivery system. Its engineering strategy of getting the core technology working well from the start accounts both for the complexity of digital transformation and for how its investments can create value.

One key difference is culture. The company hired curious leaders seeking to understand customer challenges that would help it build a nuanced vision for transformation that would always evolve and see across the ecosystem.

Charting the Right Course

Digital transformation is a highly personalized journey for every organization. Value for one doesn't mean value for all. Getting transformation right means thinking in terms of value impacts—and how to measure them—right from the start. And a significant return on investment is achievable with a careful strategy incorporating an eye for detail and interdependencies.

Learn more about how to unleash value from your digital transformation.

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