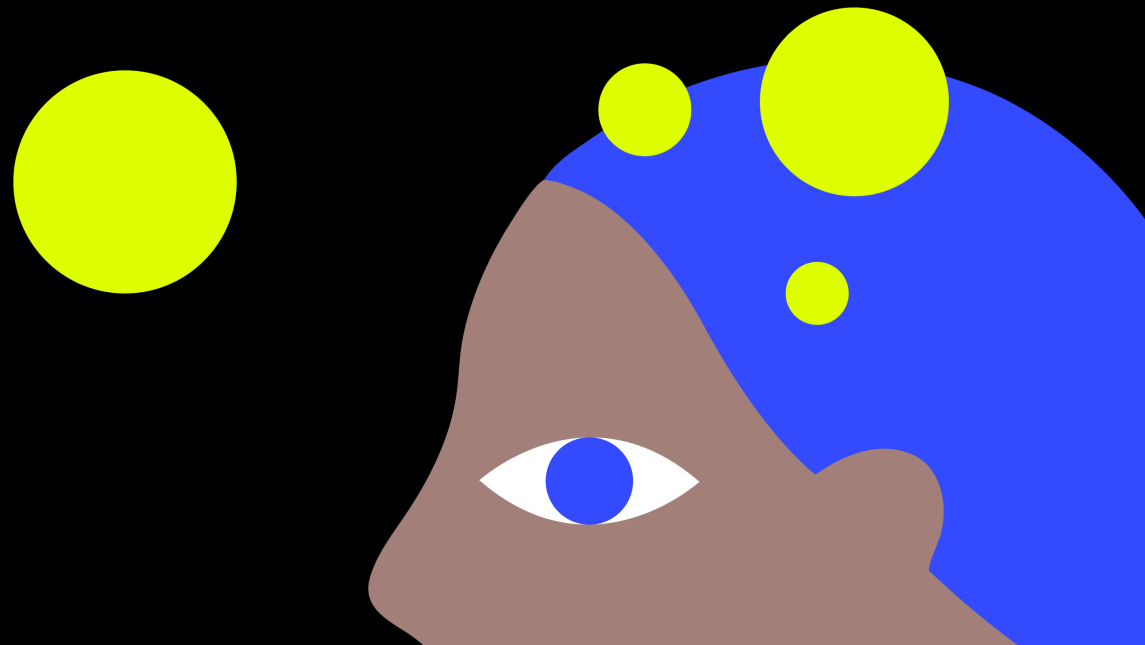


# The Next Chapter of Digital Transformation in China

**Where Do You Stand?**

**Benoit Garbe**, Senior Partner

**Leon Zhang**, Partner



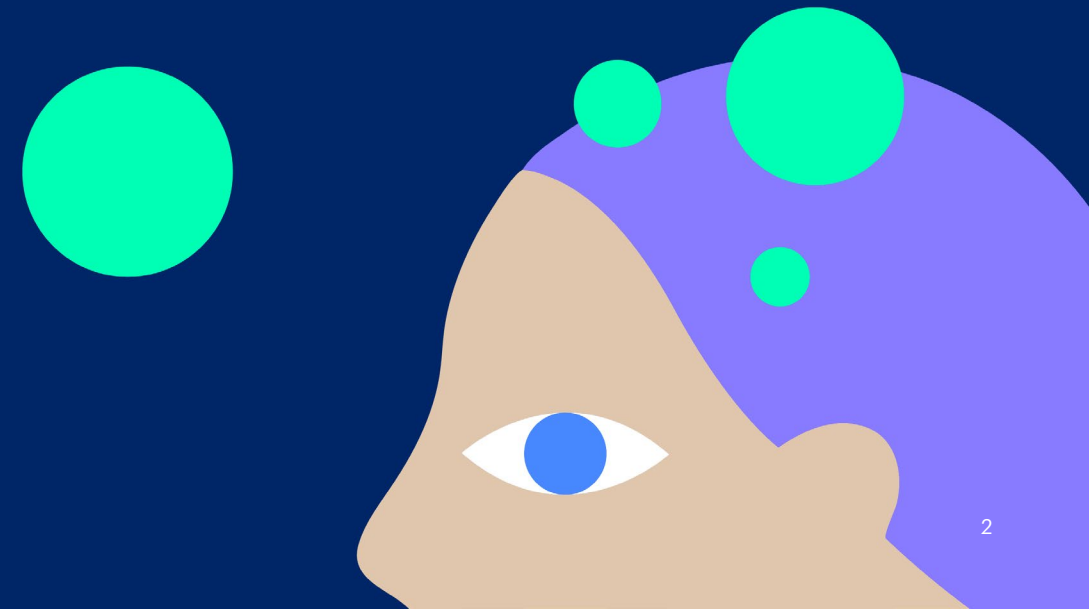
# Executive Summary

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

In 2019, strategic digital transformation is only becoming more pervasive moving beyond IT to impact competitiveness throughout the organization. Ownership is moving to the C-Suite and managed by cross-functional, collaborative groups. Customer experience (CX) continues to lead digital transformation investments.

Our global study revealed insightful differences between businesses operating in China, and those in the rest of the world, on how they think of and approach digital transformations.

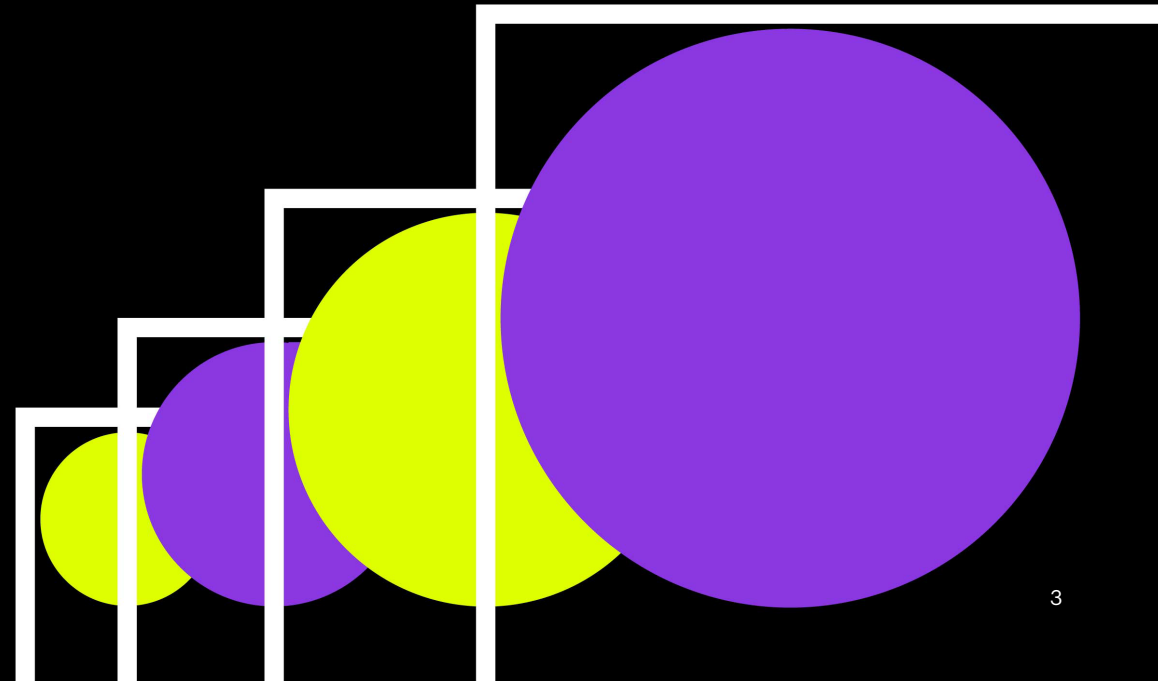
In China’s distinct and fast evolving landscape, digital transformation is even more important. In the past few years, the tech giants BAT (Baidu, Alibaba, Tencent), JD and some of our most recent tech unicorns including Didi Chuxing, ByteDance (TikTok and Toutiao), RED and Meituan Dianping among others, have led the first wave of digital transformation. Now, we are entering the ‘second half’ of the digital revolution, where more traditional businesses are transforming themselves to become more digitally-led to compete and thrive.



# Report highlights

- Over the past decade, China's growth and technology transformation has been led and fueled by BAT (Baidu, Alibaba, Tencent). We are now entering the next chapter of digital transformation where businesses and brands must adapt and lead their own digital transformation to compete and thrive.
- In China's unique digital ecosystem, almost all companies are undergoing digital transformations. Compared to other countries in the world, Chinese enterprises embrace digital transformation in a more proactive way—with CEOs playing a bigger role in leading the effort. Additionally, companies in China prioritize consumer-facing touchpoints, such as customer experience and e-commerce, to a significantly higher degree in their digital transformation.
- It is worth noting that having a strong organizational culture is instrumental to sustainable growth. However, companies in China are overwhelmingly more concerned with ROI than internal initiatives like organizational structure and employee engagement. While driving a customer-centric growth is a competitive advantage for companies operating in China, internal organization, way of working and company culture are

also essential enablers for tapping into the Body, the Mind, and the Soul of the organization. Another global study by Prophet, *Catalysts: The Cultural Levers of Digital Transformation*, argues that organizational culture and the employee experience have a vital part to play in shaping progress. As a result, the human factors in digital transformation have grown in prominence.



# Defining digital transformation and the six stages of digital transformation

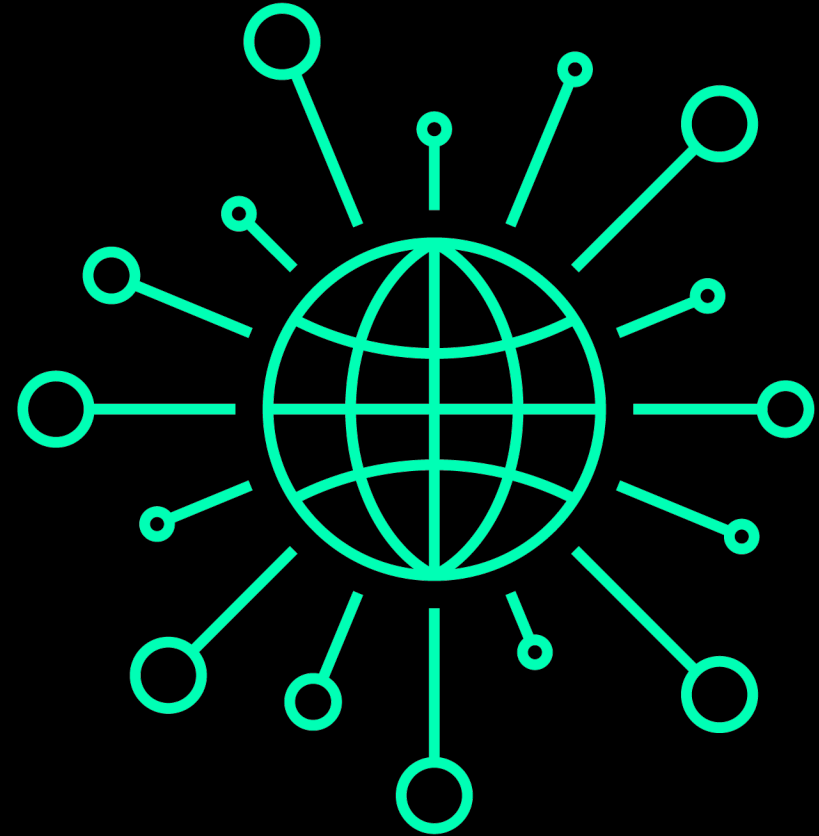
Prophet observed in its report *The Evolved Enterprise*, “the purpose of digital transformation is not to become more digital. It’s to generate growth.”<sup>1</sup> That’s why we believe digital change and innovation goes beyond IT. Digital, in fact, is becoming a Trojan Horse for total business transformation—from changing how the C-Suite operates to transforming each strategic business function, the back-office units, and everything in between.

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

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

— Brian Solis, Principal Analyst at Altimeter

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

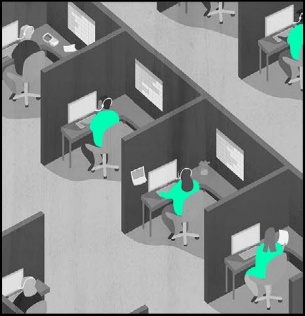


<sup>1</sup> Suh, Chan, Tony Fross, Mat Zucker, Nicholas Carrier, Michael Welch, and Kevin Grubb.

“The Evolved Enterprise: Unlocking Growth | Digital Transformation.” Prophet. <https://www.prophet.com/report/evolved-enterprise/>.

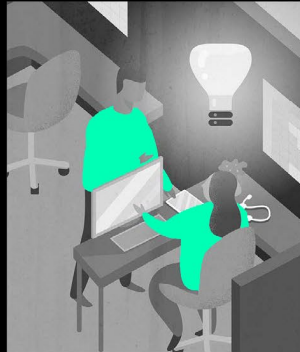
<sup>2</sup> Solis, Brian. “The Six Stages of Digital Transformation.” Altimeter, a Prophet Company. <https://www.prophet.com/2016/04/the-six-stages-of-digital-transformation/>.

# The six stages of digital transformation



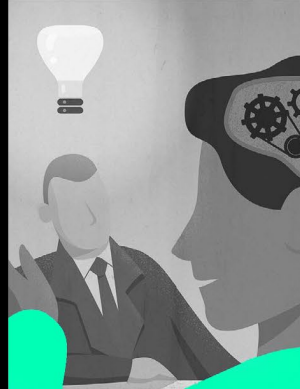
## **BUSINESS AS USUAL**

Organizations operate with a familiar legacy perspective on customers, processes, business models, and technology.



## **PREDICTIVE AND ACTIVE**

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



## **FORMALIZED**

Experimentation becomes intentional, and execution more promising. Initiatives become bolder, and change agents seek executive support for new resources and technology.



## **STRATEGIC**

Individual groups begin to collaborate with one another, and their shared insights contribute to strategic roadmaps for digital transformation efforts and investments.



## **CONVERGED**

New roles, expertise, processes, and systems emerge to form a dedicated digital transformation team, guiding strategy and operations towards customer-centric goals.



## **INNOVATIVE AND ADAPTIVE**

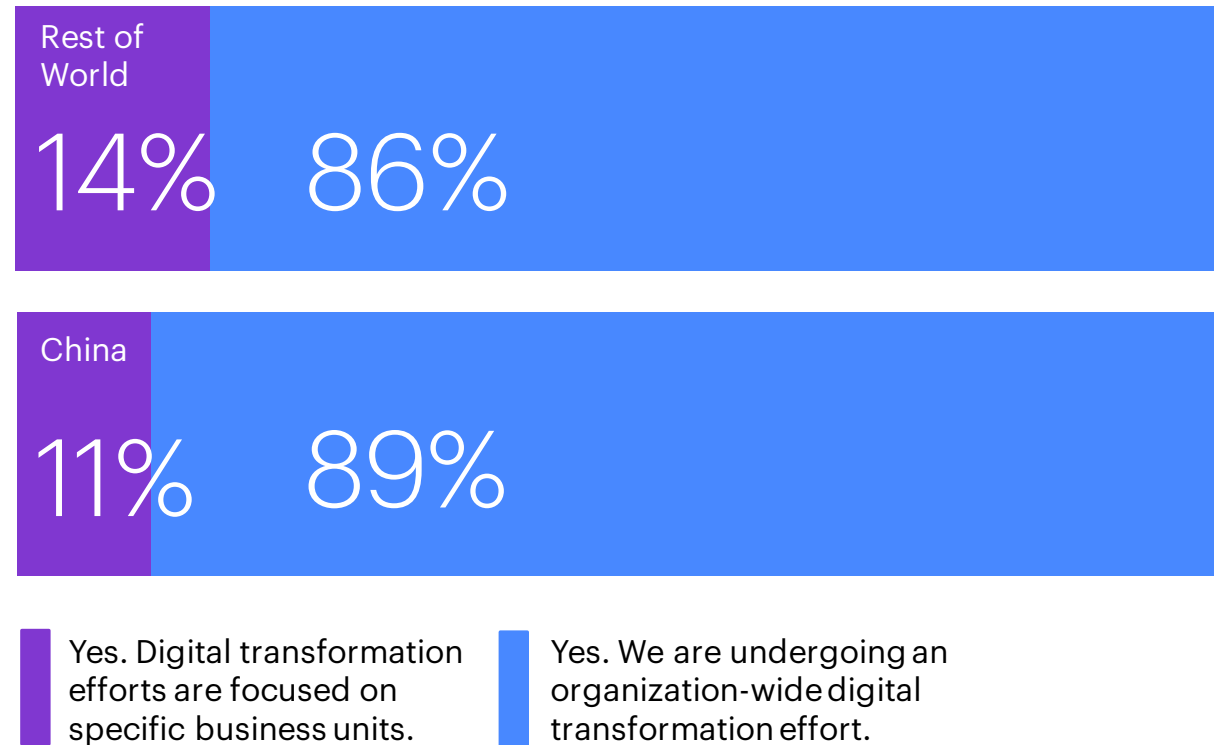
As leaders recognize that change is constant, digital transformation is embedded into the culture, and a new ecosystem forms to act upon technology and market trends.

**In today's digital era, all companies, and even more so in China, are going through organization-wide digital transformation.**

Our study demonstrates that almost all companies around the world are undergoing some sort of digital transformation. Digital transformation is no longer an option but a crucial component in any business growth strategy.

In China, 89% of the companies interviewed are undertaking cross-disciplinary and enterprise-wide digital transformation, higher than the rest of the world.

## Progress of Digital Transformation



Q: Is your organization undergoing a formal digital transformation effort in 2018?

Digital transformation in China has become a CEO-led agenda and top priority.

In the past, it's oftentimes the CIO/CTO that leads digital transformation initiatives. Nowadays, they are increasingly led from the top.

42% of the companies in China said that their steering committee for digital transformation is led directly by the CEO, which is significantly higher than what we found in other countries (29% in rest of the world).

Leadership of Digital Transformation

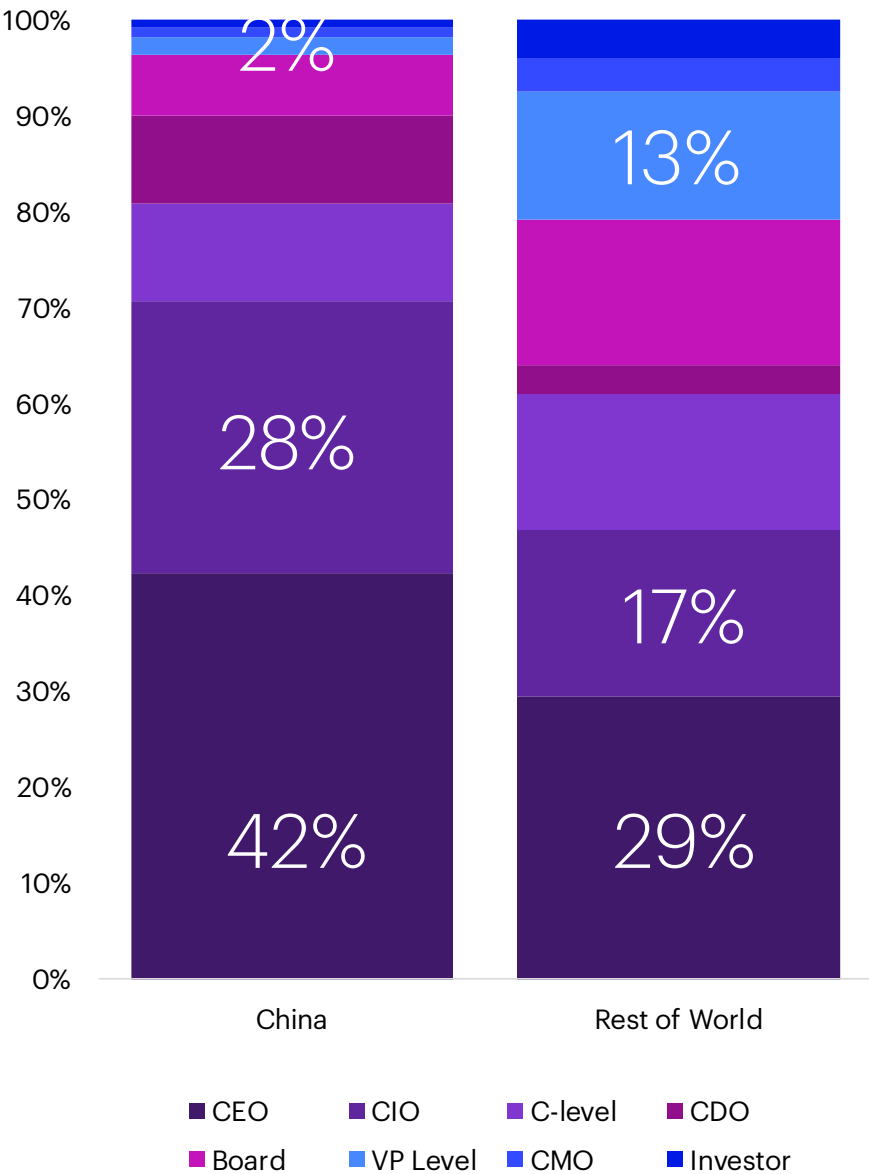
42%

of digital transformation efforts in China are led by CEO versus 29% in the rest of the world

6x

Digital transformation is 6X more likely to be led by VP level in rest of world versus China

Q: Which role or group does the steering committee primarily report to?

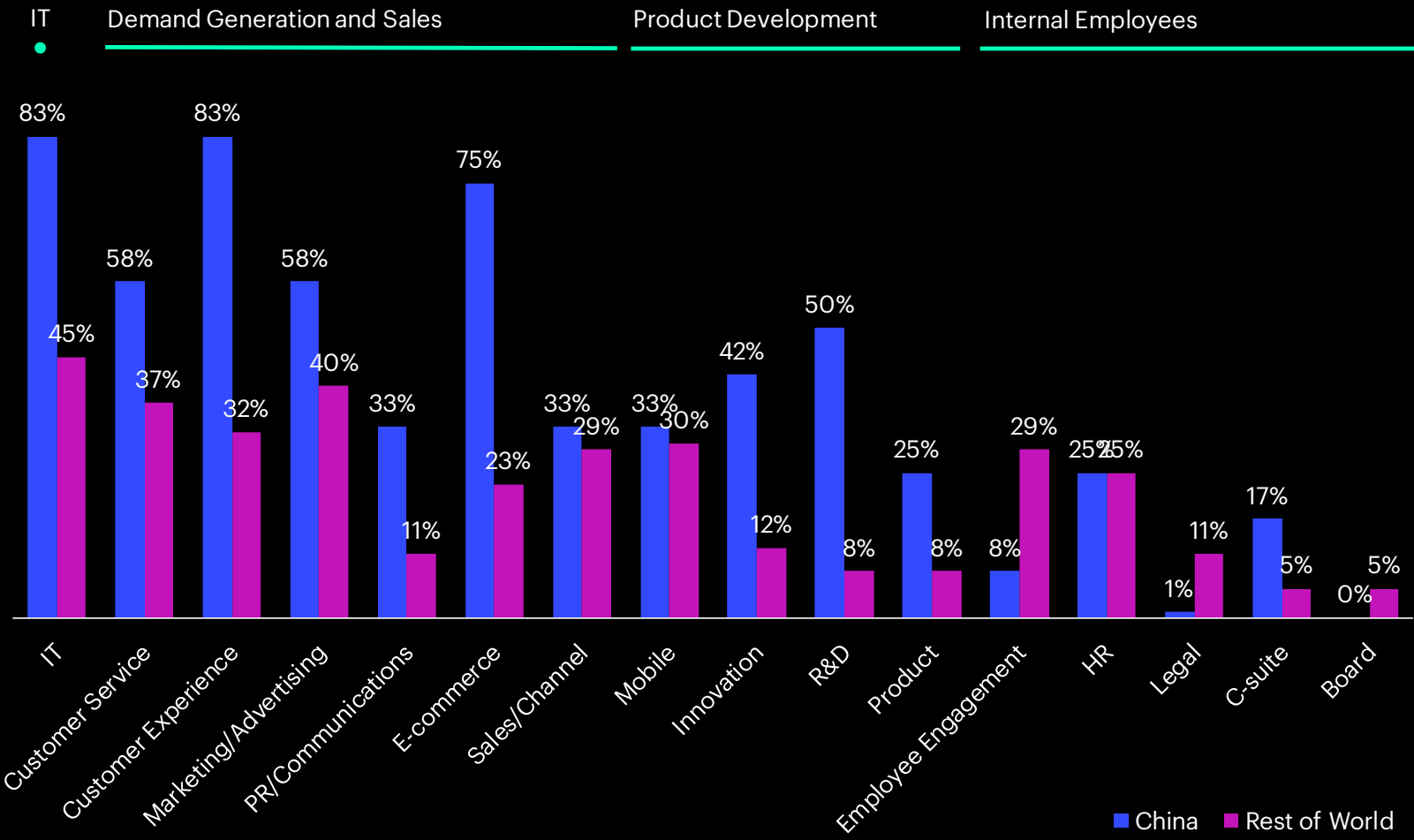


China is far leading global, in driving and pushing digital transformation in the space of marketing and CX.

Chinese companies are far more focused on digital transformation in the space of marketing, and customer experience (83% of digital transformation in China touch customer experience, 58% marketing, 75% e-commerce, compared to 32%, 40%, 23% respectively). China is also applying and directing digital transformation towards product and innovation, far ahead of the rest of the world.

However, they seem to be putting less emphasis on its digital transformation behind internal efforts such as HR, employee and legal.

Departments Prioritized in Digital Transformation



Q: You mentioned that your role directly supports the digital transformation of a specific business unit. Which business unit(s) do you support?

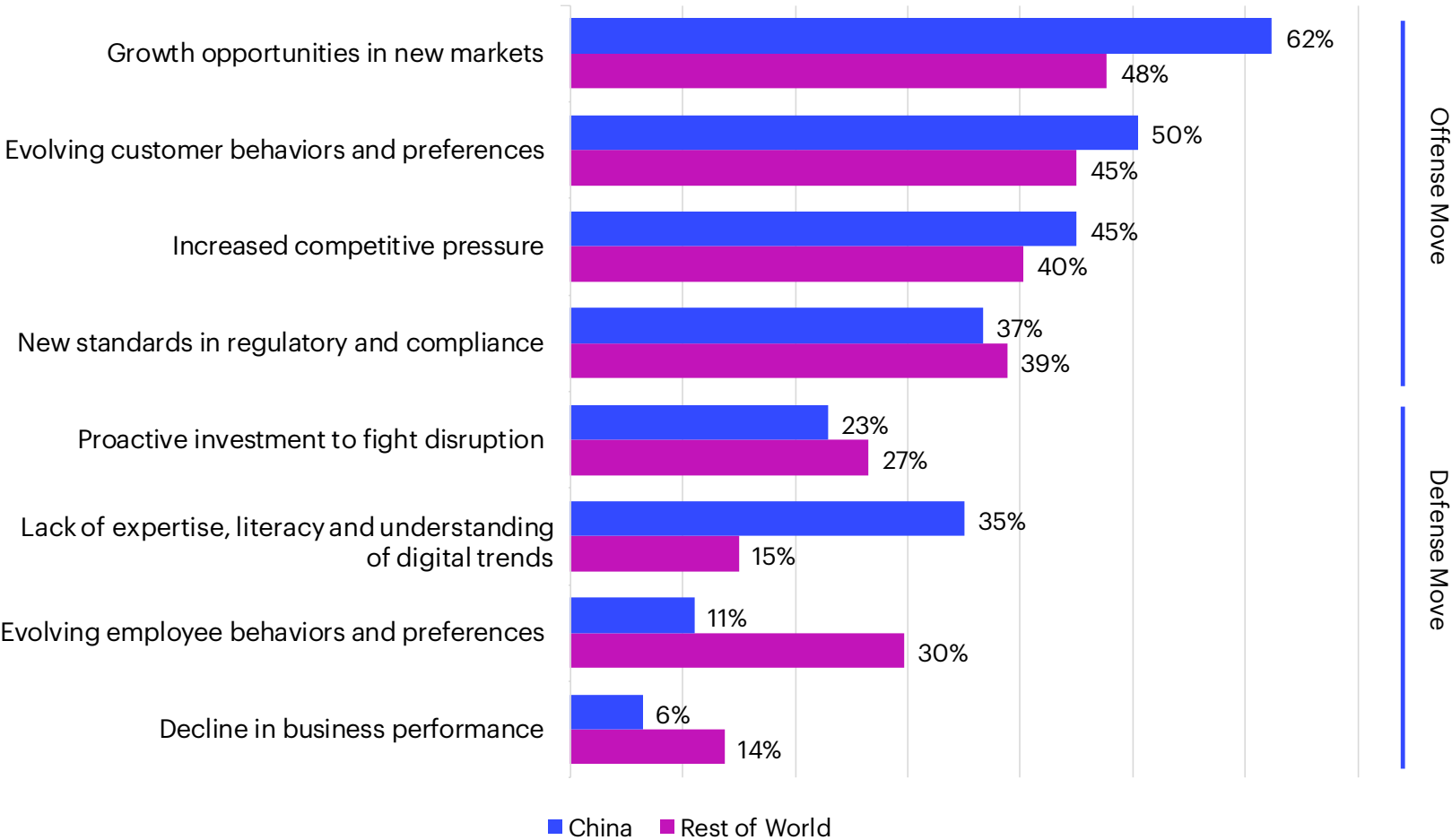


**The drive to transform in China is far more of an ‘offense move’ to capture growth, whereas the rest of world ‘plays defense’.**

For companies in China, digital transformation is all about ‘playing offense’ and driving a competitive edge. Digital transformation helps identify growth opportunities (62% in China versus 48% in rest of the world), it helps understand consumer behaviors and preferences (50% versus 45%), and it helps respond to increased competition (45% versus 40%).

On average, global firms tend to use digital transformation as a means to drive operational efficiencies, whereas China tends to focus its digital effort to drive customer demand and experiences.

Drivers for Digital Transformation



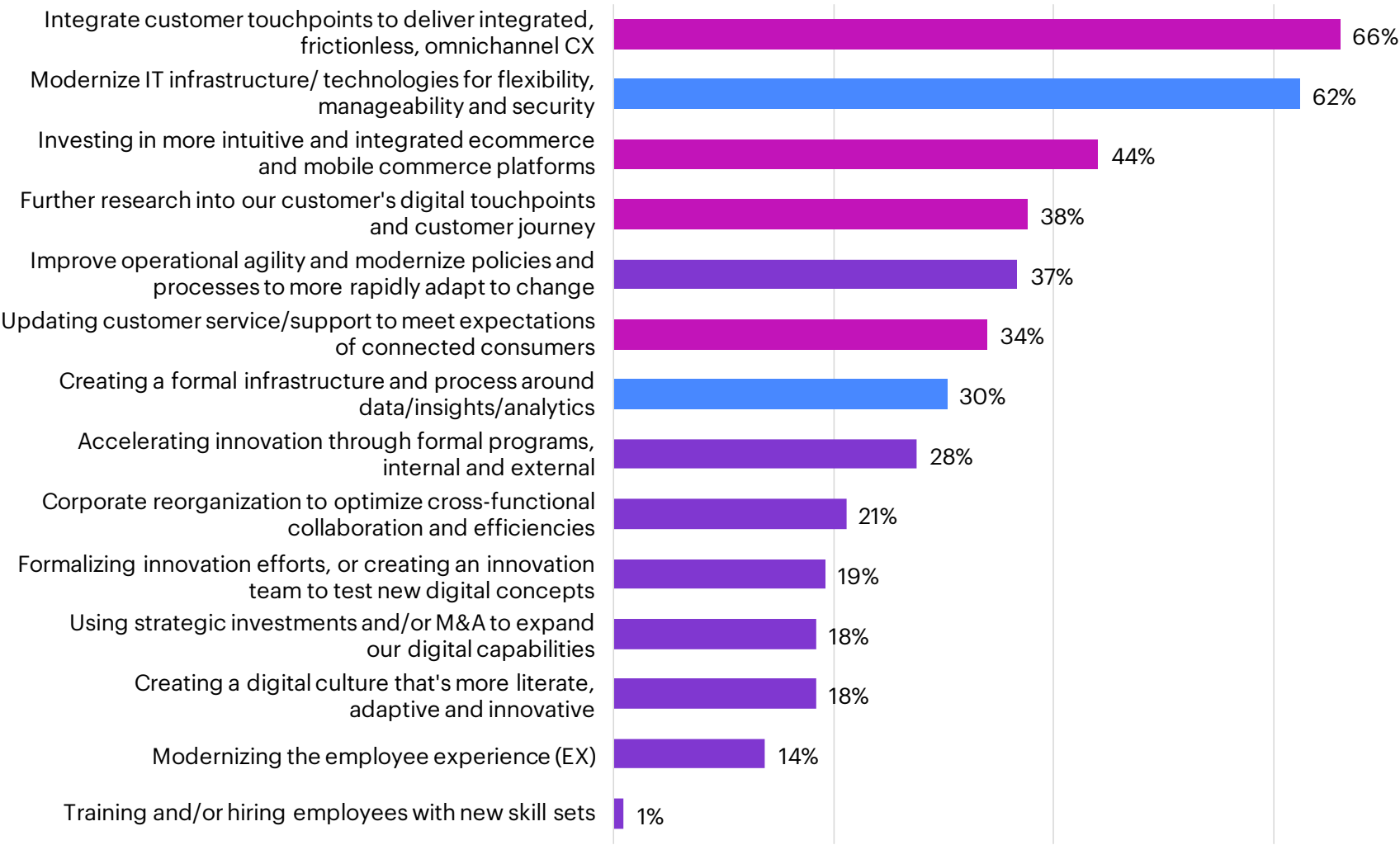
Q: What are the key drivers of digital transformation within your organization?

**In China, Data Strategy and Customer Experience are the most critical efforts, organizational and employee development falling behind.**

The drive for growth is clearly reflected in Chinese companies' long-term priorities of digital transformation as well. When deep diving into Chinese companies and the areas of focus for their transformation, one can clearly see how CX and customer data strategy dominate the agenda.

It is worth noting that organization and internal transformation is relatively low in terms of priorities for many Chinese companies, compared to CX and other growth-centric efforts.

## Long-term Priorities for Digital Transformation



Q: Which initiatives are most important to your long-term digital transformation efforts. (Data shown above is from China respondents only)

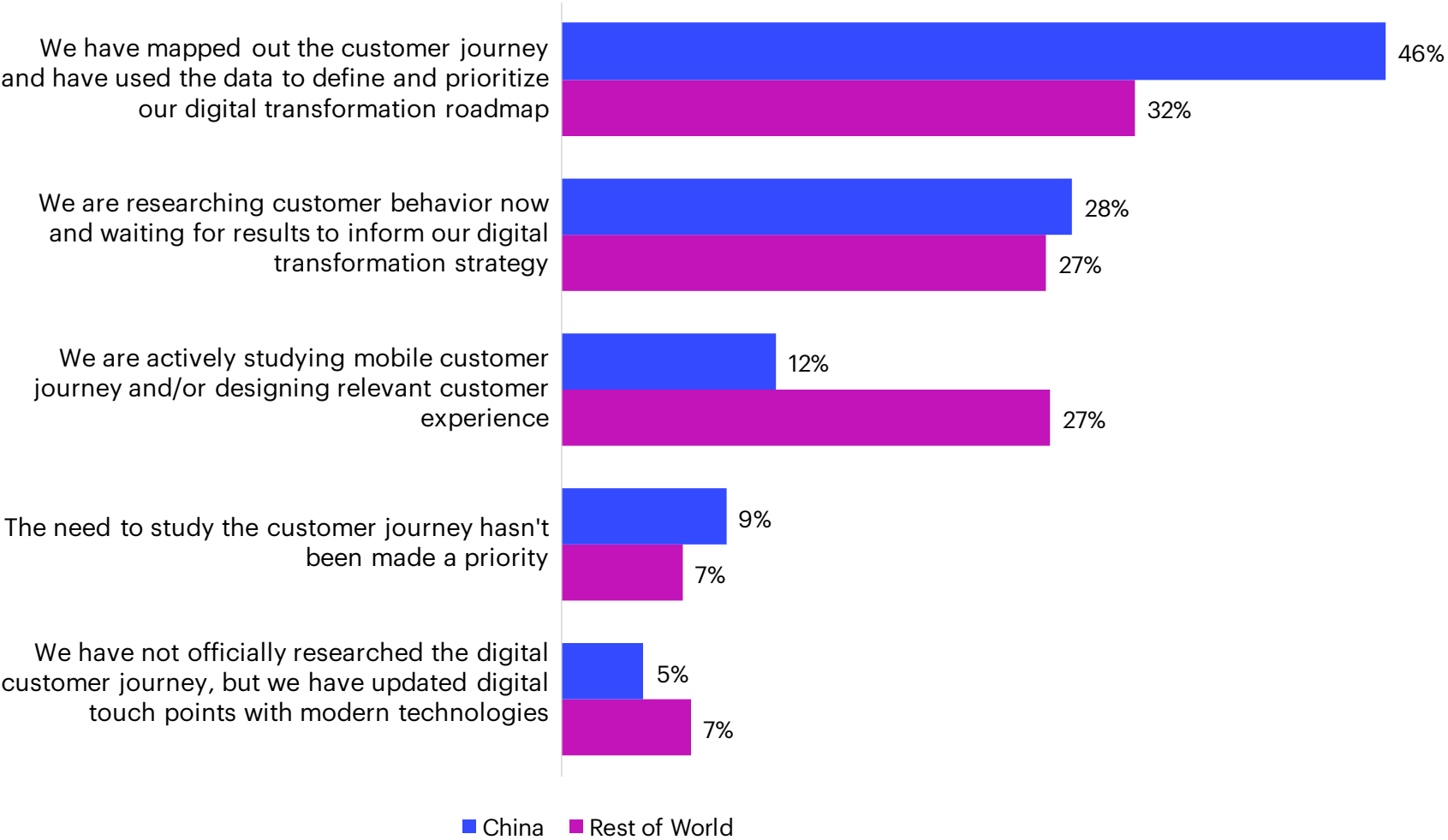
● Data Strategy ● CX ● Organization

**Companies in China lead in building customer journey and developing digital strategies accordingly.**

As high as 74% of the Chinese companies interviewed are in the process of (28%) or have completed (46%) mapping out the customer journey.

BAT or the like of Didi have raised consumers' expectations. Any consumers interacting with a brand and business expect fluidity, just in time, total personalization, and complete integration cross touch points and interactions.

Mapping of Customer Journey



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

**Companies in China see ROI and budget as bigger challenges than organization and culture.**

As companies in China evaluate whether to increase investments in digital, they expressed concerns about the lack of data and ROI. In fact, 61% of companies in China expressed concerns over the lack of data and ROI, while only 34% shared concerns with budgeting. While external factors clearly motivate companies in China to transform digitally, they are less worried about internal facing ones compared to the rest of the world.

In other countries, a lack of clear vision (18%) and company culture (23%) pose major challenges for companies. Whereas in China, these numbers are substantially lower, at only 11% and 6% respectively. This again signals the confidence and determination of businesses in China to drive forward digital transformation despite internal obstacles. The top-down cultural norm in China and the fact that many employees are digital native and fluent as consumers, provide businesses a competitive advantage, being more intentional, and more rapidly willing and ready to transform.

Main Challenges for Digital Transformation

Lack of data or ROI to justify value of digital transformation

61% 21%

China Rest of World

Budget; digital transformation is viewed as a cost center

34% 26%

China Rest of World

Lack of clear vision

11% 18%

China Rest of World

Company culture

6% 23%

China Rest of World

Q: What are the most difficult challenges you or your company come up against in digital transformation efforts?

# Conclusion

In order for businesses to win with digital transformation, they must adopt four necessary shifts in mindset and way of working:

## **1. From being technology-focused to being customer-obsessed**

Technology is a means, not an end. Investing heavily in IT or data systems is undoubtedly important. However, without deep understanding of your target audience, you are just doing digital for the sake of digital. Businesses must leverage digital approaches and strategies in a smart way to identify, understand and serve their customers in a more agile and profound way.

## **2. From tech-led sponsorship to multidisciplinary sponsorship**

Digital transformation is instrumental to the future of any company, and how business will operate. CEOs must play a pivotal role in driving the transformation agenda forward. The CEO must clarify the strategic roadmap, drive cross-disciplinary collaboration,

coordinate resources, and encourage trial and error across the organization, to experiment, learn, to codify and ultimately scale up.

## **3. From investing in operations and touchpoints only, to investing in people and culture**

The growth of a business and brand is deeply rooted in its internal capabilities and the company culture. This is especially true in the digital age where a company's organization, people and culture need to be more agile and adaptable. However wonderful the digital infrastructure or system is, the capability of the team (the mind), the mindsets (the soul), the new operating model (the body), anchored on a clear purpose (the bigger Why, the firm's DNA), are what matter in delivering truly effective, winning digital transformation.

# Conclusion

In order for businesses to win with digital transformation, they must adopt four necessary shifts in mindset and way of working:

## **4. From regarding digital transformation as a cost center to keep up, to thinking transformative investments to achieve uncommon growth**

Although digital transformation requires significant investment, the outcome will be extremely beneficial if successful. Instead of worrying about the cost, identify clear objectives and benchmarks to continuously measure ROI and impact on revenue growth and profitability, while adjusting investment accordingly. After all, digital transformation is not a 'whether or not' question, it is a must have, must do.

Successful digital transformation means shifting focus from technology to customers and moving resources towards internal organization, employees, culture and measurement. As China's digital ecosystem becomes increasingly sophisticated, on top of investing in consumer facing digital initiatives, companies must adopt the mindset to look inward—to their own organization, culture and work style—to find sustainable growth in an era of disruption.

Where does your company stand in digital transformation compared to other companies around the world?

[Click here](#) to download the global report for more insights.





## Methodology

We surveyed 554 professionals from brands, consulting firms, and other organizations with at least 1,000 employees, across three geographies: North America (US and Canada); Europe (UK, France and Germany); and China. The respondents from these organizations included in-house and agency digital strategists, and C-suite or other executive-level leaders. Our sample includes a

fixed quota of respondents from five industry verticals: Banking/Finance, Healthcare/Pharmaceuticals, Manufacturing, Retail, and Technology. We asked each respondent multiple choice answer questions about digital transformation at their respective organizations.

## Open research

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