



Analyst Connection

Canadian Digital Transformation: Innovation Gaining Momentum

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The following questions were posed to Mira Perry, Research Manager at IDC Canada, regarding digital transformation in Canada.

Q. What is digital transformation (DX) and why is it important for Canadian businesses?

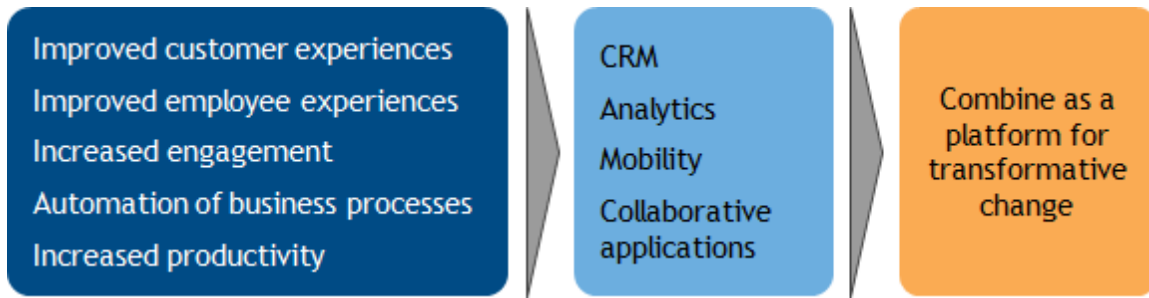
A. Digital transformation is an enterprisewide change that links digital technologies with organizational and operational innovations. Global businesses like Facebook, Airbnb, and Netflix have disrupted and transformed markets and industries through new operating models and novel ways of doing business, derived from their cutting-edge application of digital technologies. They exemplify the definition of DX: a continuous process of both adaptation and the creation of disruptive change through new business models, products, services, and customer experiences in conjunction with improved operational efficiencies and organizational performance.

"Digital transformation (DX) is a continuous process of adaptation and change that drives new business models, products, services, and customer experiences – grounded on operational efficiency and performance"

DX strategies cross all functional areas of the organization, extending beyond the organization to customers, shareholders, and suppliers. As a result, DX requires cross-department collaboration to produce transformative results. While many Canadian organizations use digital technologies, these are often selected and managed on a project basis rather than as a component of a synergistic, organizationwide transformative strategy. Leveraging technologies like CRM, analytics, mobility, and collaborative applications in isolation will not yield the same transformative results as one will find when leveraging them as an integrated platform to drive change. When realized, these transformative results provide business value through improved customer and employee experiences, increased engagement, automated processes, and increased productivity.

FIGURE 1

DX Business Value

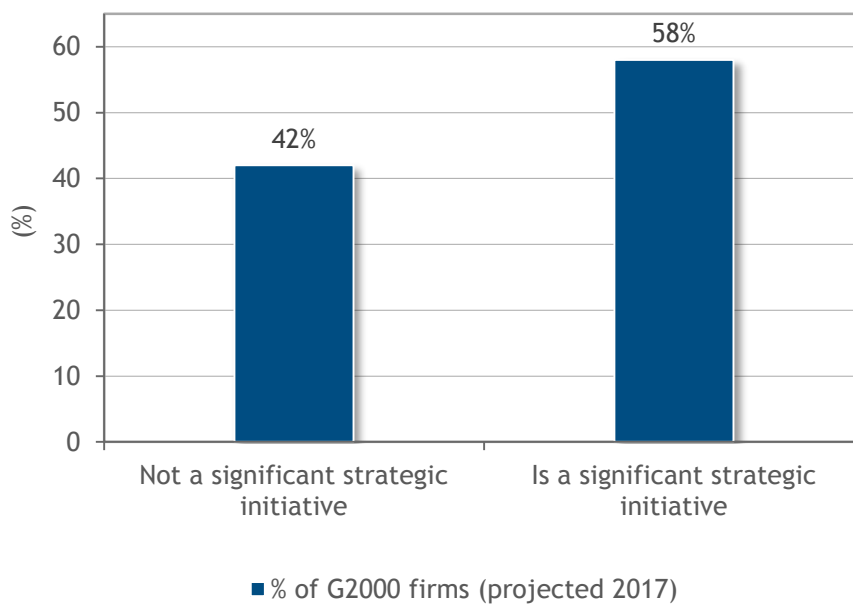


Source: IDC, 2016

Worldwide IDC research suggests that by 2017, DX will be a significant strategic initiative for more than half of the Global 2000 (G2000) businesses. Moving beyond the G2000, IDC expects 20% of the remaining businesses worldwide to proactively move in the direction of DX by 2017. Many others will follow in DX out of competitive necessity in the years following (source IDC #259616).

FIGURE 2

Global 2000 Firms for Which DX is a Strategic Initiative



Source: IDC, 2016

Canadian businesses represent 52 of the G2000 firms. IDC expects Canadian businesses to be slightly slower than their global counterparts to initiate DX as a significant strategic initiative due in part to an uncertain Canadian economic climate at the beginning of 2016. In contrast, digital adoption in France, with a comparable 61 companies on the G2000 list,

appears to be accelerating despite, or perhaps in response to, that country's own economic and political uncertainties.

IDC believes the French context of playing catch-up to more digitally advanced European countries is a significant driver for the country's DX growth. Compared to the U.S., Canada typically lags in technology adoption and this is currently holding true for DX as well. IDC anticipates a similar "DX catch-up" with the U.S. will become a significant driver for Canadian DX growth over the next 24 months. Companies competing in the U.S. or against U.S. businesses in Canada are expected to lead their industries.

Like their global counterparts, Canadian organizations across industries are seeking increased revenue and profit growth. Canadian industries like oil and gas can benefit significantly from beginning the digital transformation process as they strive to increase productivity with fewer resources, in part by leveraging technologies that optimize business processes. DX can help businesses reach these goals faster by:

- **Facilitating** effective relationships with customers and employees that enable revenue growth through improved customer experiences and robust employee resources.
- **Refining** operations so revenue growth is profitable.
- **Optimizing** information-based products and services.

Q. What should a DX strategy encompass?

A. IDC has observed successful DX strategies encompassing the following characteristics:

- **Cross-functional:** They cross all functional areas of a process or the entire business, extending beyond the organization to customers, shareholders, and suppliers.
- **Beyond IT:** Within a company, the strategy extends beyond the IT department because the acquisition of technology must be coupled with cross-functional synergy for transformation to occur.
- **Disruptive change:** The organization is willing to embrace disruptive change, and willing to misstep in the process. Business leaders who are knowledgeable about technological changes, supportive of business model transformation, and willing to accept responsibility for missteps in the adoption process are essential.

Know your starting point:

As a first step in understanding how DX can benefit their organizations, Canadian business leaders should understand where their organizations lie in terms of the DX evolution scale. IDC's five-stage DX MaturityScape is one tool that can help establish a baseline and lay out a path to DX that is appropriate for a firm's market and industry.

Appoint a dedicated executive leader:

The next step in the process is the appointment of an executive leader who can develop and implement a process-specific or organizationwide DX strategy. The strategy should centre around clear objectives aimed at driving specific business benefits via the implementation of a digital model for specific services/processes. Because successful DX strategies are often disruptive to existing business processes, they can require intense coordination across departments. For that reason, IDC encourages organizations to appoint a dedicated DX executive rather than expanding the portfolio of an existing executive. Globally, this is the most common model for successful digital transformation, although company and industry nuances may reasonably dictate CIO, CMO, or other CxO leadership.

Develop a clear strategy:

The DX strategy should clearly define objectives and business benefits. IDC's DX MaturityScope has identified core elements of digital transformation cross five business areas:

- **Leadership DX:** Tools to develop product and operational innovations by creating shared digital experiences that enable leaders to become more sophisticated in their knowledge of the enterprise ecosystem to better engage employees and customers.
- **Omni-Experience DX:** An omnipresent and multidimensional ecosystem approach to product or service deliverables that transforms the way businesses communicate with their partners, employees, and customers.
- **Worksource DX:** The transformation of effective sourcing, deployment, and integration of internal (full-time and part-time employees) and external (contract, freelance, partner) resources through agile strategies that optimize productivity by leveraging digital interactions, collaboration, and tools like machine intelligence.
- **Operating Model DX:** Defines "how" work gets accomplished by making business operations more responsive through better integration of digital connections between internal processes, markets, and suppliers.
- **Information DX:** Transforms analytical systems to extract valuable information from chaff to enable leaders to make better, faster decisions to optimize business operations.

As organizations embark on DX initiatives, there are several points of consideration to get the process started or to refine initiatives already underway:

- **Customer knowledge:** First, do we fully understand the customer? Are there data points collected at various interactions that can inform our knowledge?
- **Employee enablement:** Second, do we fully understand our employees and their needs? Does our employee training, onboarding, and performance management support digital transformation? Do we have the tools to support real-time employee feedback and engagement such as employee engagement portals and collaboration tools?
- **Understanding IT requirements:** Finally, do we have the infrastructure to support digital models for the services/processes we are targeting?

Consult strategic advisors:

It is not uncommon for businesses to bring in DX consulting support and IT implementation support to help develop and maintain the overall strategic focus of their DX initiatives, especially when they cross more than one, or even all five, of the key DX areas discussed above. The ability to recognize when resource needs extend beyond the capabilities of the organization is a behaviour exhibited by many advanced DX organizations. Some of the key considerations when selecting outside help are that the contractor is well versed in:

- The relevant business processes
- The cross-functional work involved in a successful digital transformation

Q. What DX initiatives are underway in Canada? What examples can you share from Canadian organizations that are transforming?

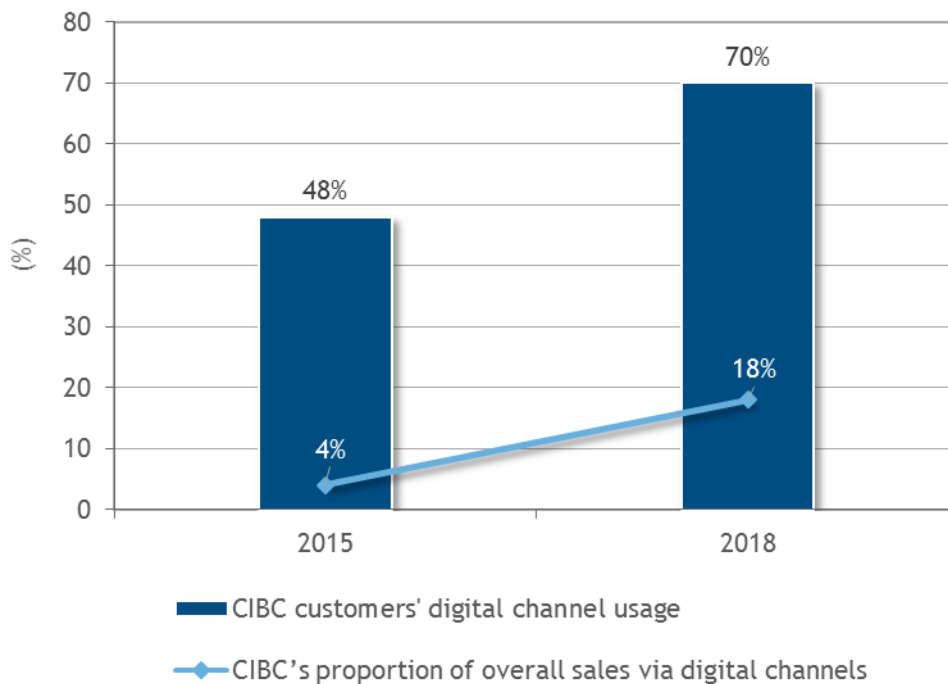
A. There are numerous DX initiatives underway in Canada. Some Canadian organizations are further along in the process than others but many have at least started thinking about how DX can benefit their organizations. The following three examples demonstrate a variety of DX implementations.

The Canadian financial services industry is heavily engaged in DX. Digital representatives for investment advice, digital cheque cashing, and digital delivery of retail banking services are all examples of DX initiatives that are underway and targeting not just a change in how banking services are delivered to customers, but also changes in the processes underlying banking services and customer engagement.

CIBC's CEO, Victor Dodig, has publicly stated that his goal is to increase customers' digital channel usage to 70% from the current 48% by 2018, and to increase the proportion of overall sales via digital channels to 18%, from 4% today. "[This is part of our] plan to compete effectively against the incumbent banks here in our own marketplaces ... and to compete with the disruptors that will play a role in the financial ecosystem," said Dodig at the bank's 3Q15 investor day. CIBC exemplifies DX in its initiation of disruptive change through new services and customer experiences. It is also important to note that the direction comes from the CEO, helping to ensure that the rest of the organization is aligned.

FIGURE 3

CIBC's CEO DX Goals



Source: charted from public statements by Victor Dodig, CEO, Canadian Imperial Bank of Commerce, CIBC Investor Day Q3, 2015

In another example, Canadian-based Innovator Industrial Services, which services the oil and gas industry, is using DX to differentiate in a highly competitive market. Innovator has changed its customers' experience by leveraging technology to deliver results faster. The company's use of technology includes automating how field technicians are dispatched, and how technicians service customers in the field. DX is being used by Innovator to improve employee morale and performance, and to increase customer satisfaction by completing jobs more cost- and time-effectively.

As a third example, the Canadian division of Starbucks is seeing success with its increasing investment in DX. Currently, 20% of Starbucks Canada's sales are handled via the Starbucks mobile payment app. With a solid user base, Starbucks Canada is now in the initial phases of transforming the customer experience for its app users: transformative processes like digital pre-ordering and bypassing the line when picking up are already being implemented in select areas. Customized offers specific to the customer's order history that are automatically handled with no need for cash/barista interaction are also being rolled out or are in the works. Starbucks continues to seek ways to leverage technology to improve the customer experience while simultaneously improving operational efficiencies.

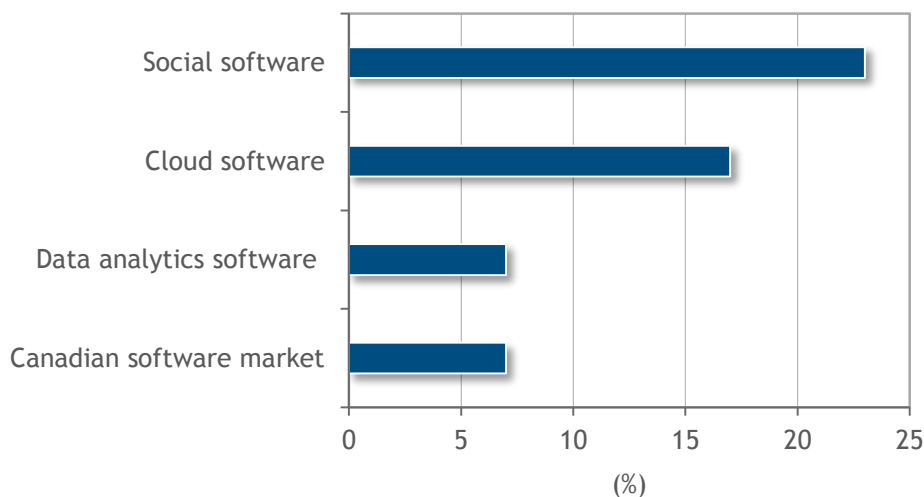
For each of these organizations, the transformation does not take place all at once: instead it is constantly advancing. While progress in one area of the business links with activities across the organization, different areas of the business are still able to progress at their own pace.

Q. What are some of the gaps of current approaches?

A. DX is more than a technology investment. Optimally, DX involves a synergistic use of technology in a way that is transformative or disruptive. Canadian adoption rates for leading-edge software solutions are projected to grow at a healthy pace ahead of the overall software market in 2016 – social software (23%), cloud software (17%), and data analytics software (7%) – while the overall Canadian software market is growing at 6%. Yet many of these implementations are undertaken as isolated projects. Bringing these technologies together, often via a single-platform implementation, increases their value to the organization.

FIGURE 4

Canadian Software Adoption



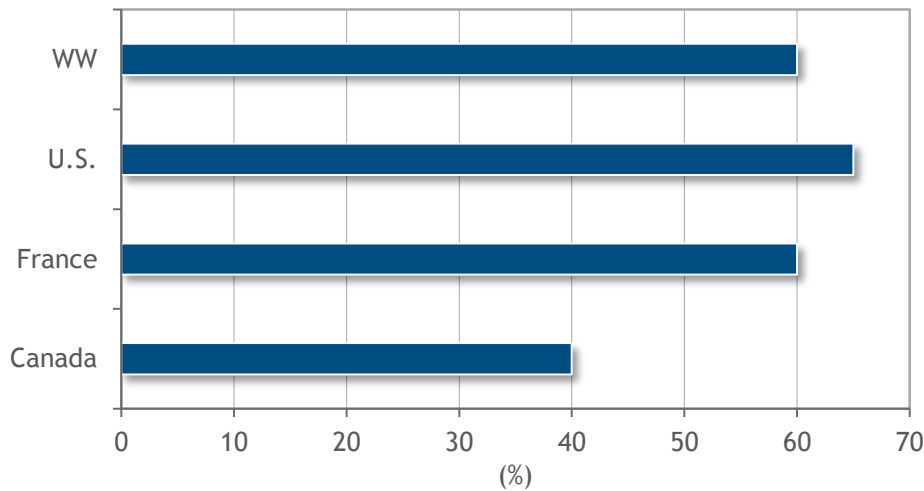
Source: IDC, 2016

Organizational resistance to change is another significant inhibitor for Canadian businesses. Changing traditional business cultures in organizations that are not "born-digital" is cumbersome. Clear sponsorship by an involved and committed executive can have a significant positive impact throughout the digital transformation process. By 2017, IDC expects that on a worldwide level, three out of five companies with a DX strategy will hire a dedicated corporate executive to oversee the implementation of the DX strategy. In France, where the DX movement is accelerating, 60% of companies surveyed by IDC report that they

have already created a chief digital officer or similar position. U.S companies also indicate a high number of executives focused on DX. Preliminary research in Canada suggests roughly a 20 point lag behind France in the appointment of a DX champion or dedicated organizational resources. In the organizations where a DX executive has been identified, IDC expects less resistance to change and a smoother transformation process.

FIGURE 5

Estimated Percentage of Companies with a DX Strategy That Have Also Appointed a Chief Digital Officer or Similar Dedicated DX Executive Position



Source: IDC, 2016

Scaling digital solutions usually happens gradually. As Canadian businesses enter into the DX space, the first efforts are often at the departmental/business unit level or are similarly restrained in scope. This is the most common point of entry into DX. The next step emphasizes the creation of digital products, services, and experiences. Scaling from here can be complex, but as we have seen from the examples above, it is achievable for Canadian businesses. Further along in the transformation process, companies bring the parts together with integrated, synergistic LOB-IT management alongside CRM, analytics, mobility, and collaborative applications capabilities and functionality that are embedded in the enterprise. From this synergistic state, the business is positioned for industry disruption with leaders embracing risk taking as constant customer, employee, and supply chain feedback helps refine innovation.

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