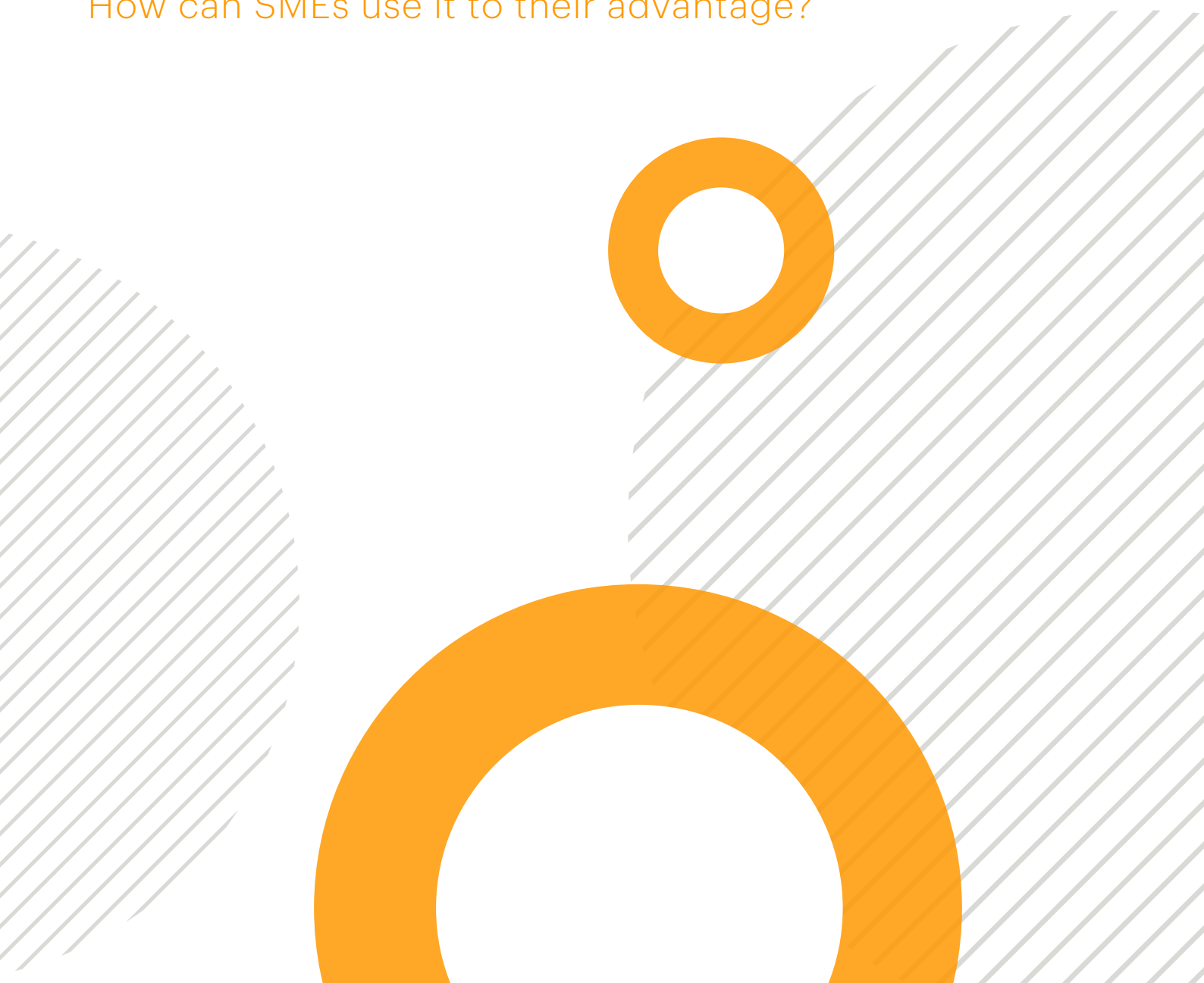


DIGITAL TRANSFORMATION: REVISED EDITION 1

What is Digital Transformation and why does it matter?
How can SMEs use it to their advantage?



Icehouse Insights

A regular series introducing many of the major challenges facing SMEs today, Icehouse Insights provides a stepping-stone to kick-start the conversation, solve some common queries and win.

This edition:

One year ago, The Icehouse launched a special edition of Icehouse Insights; focusing on digital transformation.

As the technological landscape changes so fast, this update attempts to open a window to existing challenges and alert readers to what's happening in 2022.

INTRODUCTION

Digital Transformation is becoming one of the most important business priorities – and with good reason, as it's the main component for innovation in today's successful and adapting businesses. It's a key driver in how these organisations operate, compete and grow.

It was always coming, but digital transformation initiatives have skyrocketed since COVID-19, as businesses were forced to investigate new ways of working to control costs, boost efficiency, offer their teams flexibility and, perhaps most importantly of all, address the ever-changing and more sophisticated needs of customers.

It's time to ask yourself... are you harnessing digital to effectively achieve your strategy?

WHAT IS DIGITAL TRANSFORMATION?

‘Digital transformation is the process of using digital technologies to create new, or modify existing, business processes, culture, and customer experiences to meet changing business and market requirements. This reimagining of business in the digital age is digital transformation.’
Salesforce

We’ve had the ‘digitising’ of business functions for decades. The banking sector is one of the more obvious exponents. Decades ago all transactions involved human customers and human bank tellers. Then came ATM technology, mobile and online banking and cashless payment systems.

However, the major distinction is that digital transformation does not simply seek to ‘digitise’ for the sake of using a technology but, instead, is predominantly driven by either improving operational efficiency,

improving customer experiences in interacting with the business and consuming the product/service, or adding value to new or existing customers that gives an edge over competing businesses.

It streamlines many of a business’s internal processes and brings them up to date. For example, ‘paper’ is eliminated as documentation becomes electronic, administrative tasks become quicker to perform with technology, and staff communication is improved through online assets such as an intranet, and meeting platforms like Teams.

Businesses use websites, marketing automation tools, social media and digital advertising. Digitally transforming sales channels can make a good eCommerce business great, with faster purchasing, extensive payment methods and data management software.

KIWI BUSINESS POLL RESULTS

Every month The Icehouse publishes a Kiwi Business Poll on its website.

For this edition of Icehouse Insights, we asked: 'To what level are you adopting digital transformation in your business?'

The results were surprising, and the big takeaways are as follows:

10%

of organisations 'get' digital transformation, but don't believe it to be a priority at present

40%

of organisations don't know anything about digital transformation

0%

of you believe digital transformation brings any value to your business

Clearly the value of DT offers SMEs needs to be explored and understood further, with billions of dollars of potential revenue and operational cost-savings left on the table.

Read on to learn more about the importance of creating and capturing value through digital transformation and for a full run down of this month's poll results.



Poll Results

To what level are you adopting **digital transformation** in your business?



DIGITAL TRANSFORMATION IS THE PRIMARY DRIVER FOR INNOVATION AND GROWTH IN MY BUSINESS.



THE BUSINESS IS SIGNIFICANTLY INVESTING IN DIGITAL TRANSFORMATION INITIATIVES.



I 'GET' DIGITAL TRANSFORMATION, BUT IT'S NOT A PRIORITY RIGHT NOW.



DIGITAL TRANSFORMATION WILL BRING NO VALUE TO MY BUSINESS.



I DON'T KNOW ANYTHING ABOUT DIGITAL TRANSFORMATION.



MONTHLY KIWI BUSINESS POLL

WHY IS IT IMPORTANT?

The global events of 2020 have forced organisations of all sizes to address their digital capabilities because we had to change the way we all do business in order to essentially survive financially.

93% of global executives believe that digital is critical to achieving their strategic goals (McKinsey) and 77% of CEOs say that COVID-19 sped up their digital transformation plans (Deloitte). Moreover, 79% of corporate strategists claim to be digitalising their businesses to create new revenue streams, says Gartner.

‘We’ve seen two years’ worth of digital transformation in two months,’ Microsoft CEO Satya Nadella famously said in February 2021.

‘From remote teamwork and learning, to sales and customer

service, to critical cloud infrastructure and security – we are working alongside customers every day to help them adapt and stay open for business in a world of remote everything.’

DT benefits:

- It reduces costs as a result of time savings in processes
- It improves operational efficiency and productivity
- It opens the door to new business opportunities and revenue streams
- It increases the speed of response to changes in demand in the market
- It drives the culture of innovation, preparing the company to anticipate any disruption
- It empowers decision-making by deeper data analysis (Big Data)

Source: Nexus Integra

WHAT'S IN IT FOR SMES?

'I'm an SME. I don't need to digitally transform.' Yes you do. Not only is it a requirement, it is now expected by the consumer and staff.

If you can knock off 20 hours a week of administration time by automating your payroll or invoicing, would that not be a technology worth investing in? If you could drop the time inventory sits on warehouse shelves by half – by having better data and forecasting, or have customers' technical questions answered within one working day by connecting the sales team directly with your tech teams messaging system, would that not give you a leg-up on customer preference?

Although there are more digital transformation opportunities in operational functions, the majority of necessary digital transformation requirements are primarily driven by the customers themselves.

Consumers choose the way they want to discover, interact, select and maintain a relationship with a business. Quite simply, if you are not present where the customers are, you are not willing or able to communicate with them on the channels or way they want to, or have the ability to truly know your customers on a personally informational level, you are in the stone-age in terms of business today.

Whether you're a plumber, a commercial bakery, sell agricultural machinery or are an engineering firm, your customers will not only expect to be able to make an enquiry through your website, they also want to purchase with digital currency and see your socially responsible behaviour via your social media channels, while also receiving personalised offers and messaging.

NZ'S PLACE IN THE DT WORLD...

Digital transformation is not out of reach: 'SMEs tend to digitalise general administration or marketing functions first. Business surveys on ICT use show that the digital gap is smaller between SMEs and large firms in their online interactions with the government, in electronic invoicing or in using social media or selling online,' according to the OECD.

The tools used are also more readily available, easier to utilise and implement, and cheaper than ever before. If you can use digital transformation to give customers a better experience and connect with you easier, then choose to make it a business priority – or someone else will.

Kiwi business owners understand the importance of digital technologies to achieve their strategy and objectives, but many do not necessarily know

what this means in the context of their business, or where to start. They know 'why' but need support with 'what', 'how' and 'who'

The general opinion is that New Zealand has plenty of talent in the digital space – it's a tech bubble of innovation at present, but the ideas, products and solutions that are generated are then sold offshore. It's international markets that benefit most from Kiwi ingenuity.

However, it is two steps behind the comparative countries. In 2021, a new study has shown the urgent need for Kiwi organisations to focus on digital transformation so they can adapt and change quickly in the increasingly uncertain era of COVID-19.

STATISTICS AND STRATEGY

Workday Digital Agility Index, conducted by Workday and reported in NZBusiness, found that:

59%

of organisations don't have a strategy to develop their digital talents

58%

don't have a dedicated budget for digital transformation

37%

of organisations have embedded a digital way of working across the entire enterprise

62%

of all New Zealand organisations say less than half of their employees are equipped with digital skills

To get DT right, consider the five pillars of digital transformation before embarking on a full programme of change:

Purpose and Strategy

Be clear on your purpose and strategy

Value

Understand how you create and deliver value for your customers

Digital Operations

Question how you can improve how your people work and create organisational efficiencies

Innovation

Understand innovation and the innovation principles that can bring about meaningful and sustainable growth in your business

Action planning

And finally, develop a plan to drive implementation and results

THREE MAIN BRANCHES OF DT

Operational Priorities

CRM System

Customer relationship management (CRM) is a technology for managing all your company's relationships and interactions with customers. A CRM system helps companies stay connected to customers, streamline processes, and improve profitability. In many cases it is the single point of truth for a business's data and is a must for making informed strategic decisions across all functions. Examples include Salesforce and HubSpot.

ERP System

Enterprise resource planning (ERP) is defined as the ability to deliver an integrated suite of business applications. ERP tools can be unruly so a word of caution is needed before implementing.

However, if done right, the benefits can be felt across a business's back office processes, allowing for automation across finance, HR, distribution, manufacturing, service and the supply chain. Examples include Oracle and SAP.

Team Collaboration and Messaging Tools

When the business is small, simply picking up the phone or a text message may be all you need in terms of internal communications. But when the business grows with further team members it becomes much harder to communicate effectively. Implementing this early into your business can make it a much more natural part of everyday operations. These tools really help when there are multiple stakeholders needing to collaborate on a daily basis. Examples include Microsoft Teams and Trello.

THREE MAIN BRANCHES OF DT

Consumer Focused Priorities

eCommerce/Website

Without a doubt the number one customer-facing priority for digital presence is a website. It is your 'brochure', your ever-present 'Sales Rep', and your means of frontline customer service and communications. It is still one of the most predominant ways customers find and learn about your business.

Out of all the digital tools, it has become one of the lowest-cost investments and platforms like WordPress, Wix, Squarespace and Shopify have made accessibility and implementation so exceedingly easy that there are very few excuses not to have one. Yet amazingly, less than 64% of small businesses globally have a website (Blue Corona).

Adding to this, if your business sells products it is a sales channel that simply must be activated via eCommerce – and although you may think eCommerce does not apply to your business, you may be surprised to see other competitors transacting and delivering services completely online.

Digital Marketing

As mentioned earlier, consumers drive many digital transformation initiatives by demanding certain behaviours through a general one of their own. The main example is the move of interaction to social media – not only among individuals, but now also increasingly with consumers to business communication. It may be obvious, but advertising should occur where customers are.

THREE MAIN BRANCHES OF DT

Digital Marketing cont...

Here, advertising needs to occur on social media channels, search engines and placements on the websites they visit. An increasing allowance in the budget for digital advertising is a must. Extra effort is also needed across bespoke content in the form of video, articles and regular posts to maintain a high level of awareness and promote the business in a favourable way.

Outside of advertising, marketing communications with customers in the digital realm is expected, with customer service needing to include social media channels as well as traditional internal email inboxes. A fully sophisticated team may also tackle not only owned channels, but any external mention of the business to showcase the business's commitment to its customers.

Value Addition Priorities

Customer Relationships

Value should not just be weighted towards new-to-business or lead-based transactions. To truly focus on the customer, value must be felt post-sale and even while a customer is back in 'hibernation', depending on sales cycles. Automation around reminders, easy scheduling for things like necessary maintenance, and personalisation of those communications that make a customer feel special can go a long way in elevating a customer's continued experience with your business, potentially reducing cost per acquisition and increasing lifetime value of sales from that individual.

THREE MAIN BRANCHES OF DT

Value Addition Priorities cont.

Innovations

Some digital transformation ideas may not be a necessity but, instead, can still be an opportunity to explore in creating more space between you and the competition for customer consideration. Examples include 'augmented reality' for fashion where a user can see what a pair of glasses may look like on their face before purchasing, or a bonus fitness tracker app with a running shoe purchase. The list is exhaustive – keep up with technology and an opportunity may just find its way to you.

CREATING AND CAPTURING VALUE

With DT all around us, it's important to really understand how it can work for you so you're in the best possible position for when you're ready to hit 'go'.

'How do I actually create value from digital transformation?' is something we get asked a lot.

Value creation from digital transformation for businesses falls into three distinct categories; value from operations, value from customers and value from eco-systems. They are tightly woven and what's done in one area can greatly influence what happens in the next.

Eco-system value is about offering an interconnected group of services. Think of Apple and their AppleCard and ApplePay financial tools, for example, which perfectly hits the three benefits.

The core business grows, the organisation's offering is expanded, and new revenue is created from products and services.

Operational value is regarded as the most effective creator of value, through reducing costs and increasing speed in the costs of operations and speed to market.

For SMEs, the biggest DT takeaway in value creation is around customer value; finding better and more efficient ways to serve, and creating "more" value in existing and new lines.

If DT can help you reduce costs, increase speed, raise revenue from cross-selling and streamline the customer journey, then perfect.

CREATING AND CAPTURING VALUE

Take a simple example like McDonald's. The organisation has reached a finite point in the speed in which it makes and serves food. They can't do it any faster. But what they have done is create an even smoother process in the ordering system, through mobile phone apps, drive-thrus and in-store touch screens.

The food doesn't come out quicker, but the customer spends less time having to queue to place the order and make the transaction, thus shortening the purchasing journey.

DT in action may be automation around reminders, easy scheduling for things like necessary maintenance, and personalisation of those comms that make a customer feel special. It can go a long way in elevating a customer's continued experience with your business, potentially reducing cost per acquisition and increasing lifetime value of sales.

Whatever the size of the business, the same principles apply. Continually asking 'how can DT help create value in my organisation?' involves placing a sharp focus on every given stage in the chain, whether it's sales, marketing, human resources or accounting.

This is important to consider when prioritising initiatives – as is focusing on all processes and how one may affect another. Creating customer value should not just be weighted towards transactional outcomes, but internally facing, too. Align your organisation at all levels and build consistent tools and frameworks and commit to these efforts.

It's not enough to create value, you also need to capture it. Value capture is slightly harder to qualify but is basically a business's ability to generate revenue and create profit from its transactions.

CREATING AND CAPTURING VALUE

Value capture through DT may come in the form of stronger digital marketing, using more powerful data analytics or quicker product development based on defining what you want capturing – such as working out which customers and products are the most valuable to your business and going from there.

Problems arise when organisations fail to understand the relationship between creation and capture and fail to build in strategies to maximise the two elements.

The best place to start is the capturing of value, as often creating value can be hard to ascertain if you don't know what data is important to your various business functions – hence, where to start and why it's important.

Start with identifying the data that is critical to your business in its various functions. Once identified, dive into that data and analyse it, and start

asking those questions of how it could be useful in other ways you hadn't previously expected.

Next, pinpoint which data is now important to which function of the business. For example, Function A may need five data points to be tracked, and Function B may need eight, with two overlapping bits of data between Function A and B.

This holistic approach makes a business better equipped for understanding how changes can impact areas of the business simultaneously, both positively and negatively.

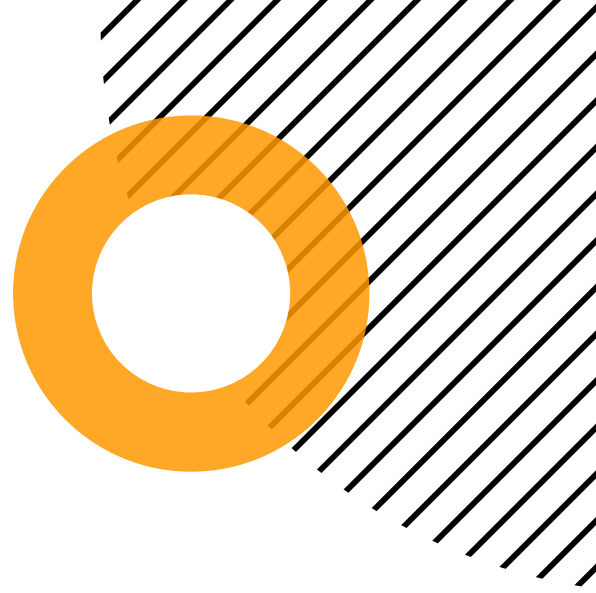
At this stage it's time to start analysing the new data points for each function of the business by looking for the key findings. Once you have these key findings, you can start using that data to action changes within the business to create this new value.

CONCLUSION

SME success over the next two years will depend on an organisation's ability to embrace innovation, and use and leverage digital and cloud technologies, according to several newly-published reports.

MYOB's 2022 Technology Snapshot, for example, shows that 45% of SMEs have looked into how new technology can help their business, with a similar number aiming to improve their digital capabilities in the next 12 months – particularly in the areas of sales, administration, and how they communicate to their customers.

And finally... get good advice, skill-up when you can and, as you develop an understanding of the rewards that a complete DT roll-out can bring to your organisation, you'll unlock lucrative opportunities to deliver innovation and compete on a more even footing with larger firms.



THE
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INSIGHTS

