

Gartner Strategy Leadership Council

Strategy Leaders' Perspectives on Digital Investments



Gartner®

Overview

Companies have been spending a lot of money on digital, and this trend will only continue. In fact, according to the 2019 Gartner CEO and Senior Business Executive Survey, 77% of CEOs plan to increase investments in digital capabilities. However, a different survey — the 2019 Gartner Strategy and Corporate Development Functional Benchmarking Survey — revealed that the majority of strategy leaders believe these digital investments can be improved, as they haven't been used for transformational change, are not integrated into critical business operations and haven't created a competitive advantage. This research enables strategy leaders to understand peer perspectives on digital investments and some of the reasons driving them.

Key findings

- Seventy-seven percent of CEOs intend to increase investment in digital capabilities, the highest since 2014.
- Nearly five times the digital budget is spent on current business models rather than new ones.
- The majority of strategists don't deem digital investments critical to business operations.
- The majority of strategists believe digital investments have yet to create nonreplicable, differentiating capabilities that result in a competitive advantage.

Recommendations

To improve the return on digital investments, strategy leaders should:

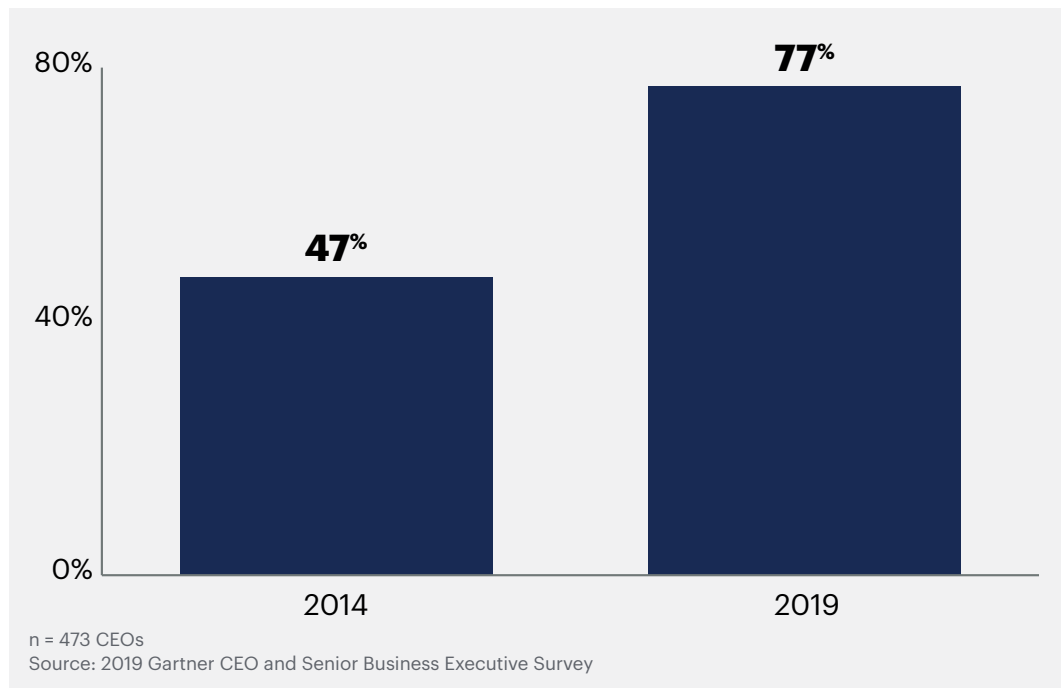
- Identify synergies in the enterprise portfolio by providing business leaders with cross-enterprise visibility into digital investments.
- Educate executives on how digital investments that solve one-off business problems don't support broader, long-term enterprise business model transformations.
- Focus investments on creating unique, differentiated capabilities by educating senior leaders on how digital can keep the company ahead of disruptive market shifts.

Introduction

Digital transformation is a top priority for CEOs: In a 2019 Gartner survey of CEOs, 82% of them indicated they had a digital transformation or management initiative underway, up from 62% in 2018. What's more, 77% of the surveyed CEOs intended to increase their investment in digital capabilities, the highest since 2014 (see Figure 1).

Figure 1. Annual changes in CEOs' intended investment increases in digital capabilities

Percentage of respondents



While multiple factors have driven CEOs' interest in digital investments, the onset of a fading business cycle is increasingly one of them. Diminishing top- and bottom-line growth prospects are pushing CEOs to look to digital investments to identify new or optimized revenue streams, or reduce costs through efficiency plays.

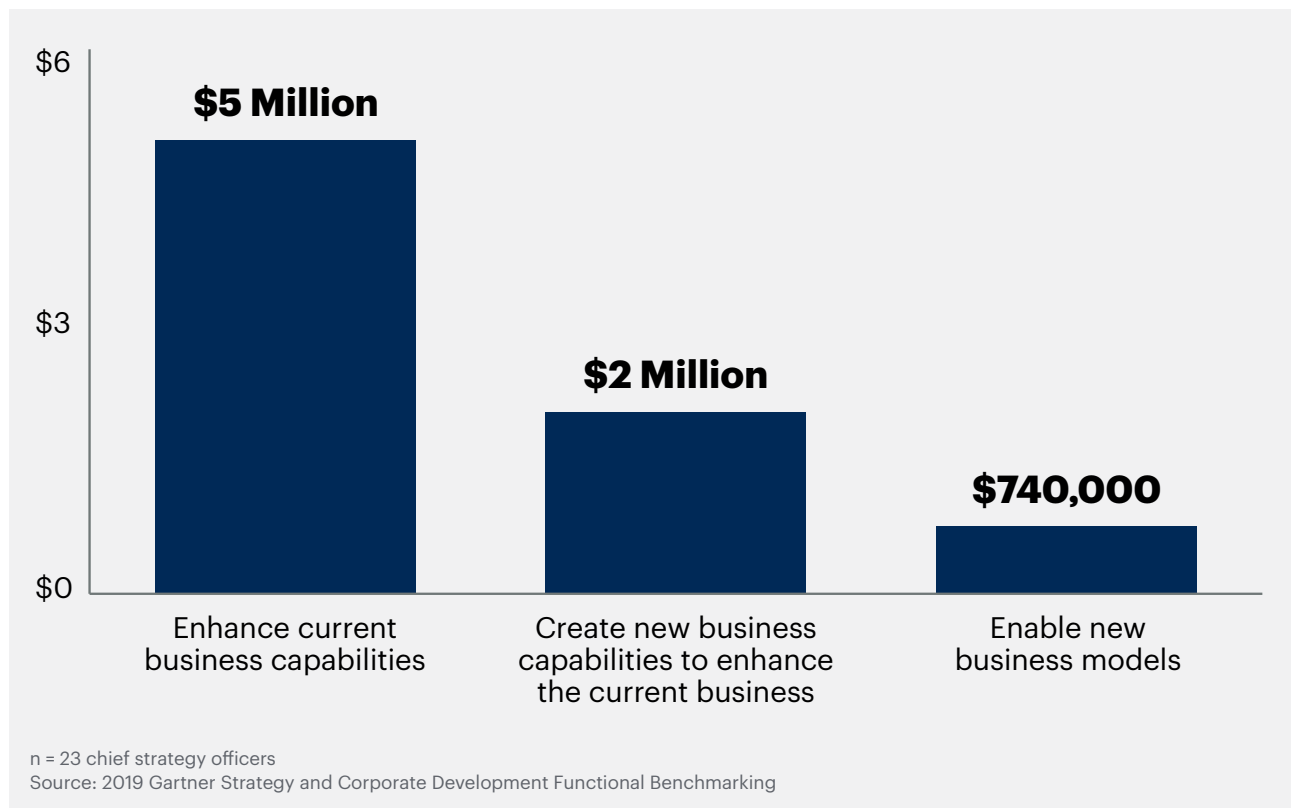
That said, the majority of strategy leaders feel their organization's digital investments have room for improvement. There are three reasons for this lack of return:

1. The digital budget is overweighted in favor of current rather than new business models.
2. Digital investments are not yet critical to business operations.
3. Digital investments have not materially improved competitive advantages.

Reason 1: The digital budget overweights current instead of new business models

Despite the talk of digital transformation, nearly five times the budget for digital investments is allocated to the current business model (i.e., enhancing existing capabilities or creating new capabilities), as opposed to a new business model (see Figure 2). Although the duration of competitive advantages seems to be shorter and leadership increasingly recognizes that what made the company successful in the past may not in the future, companies' digital focus appears to be optimizing the status quo.

Figure 2. Budget allocation for digital investments
By purpose, 2019



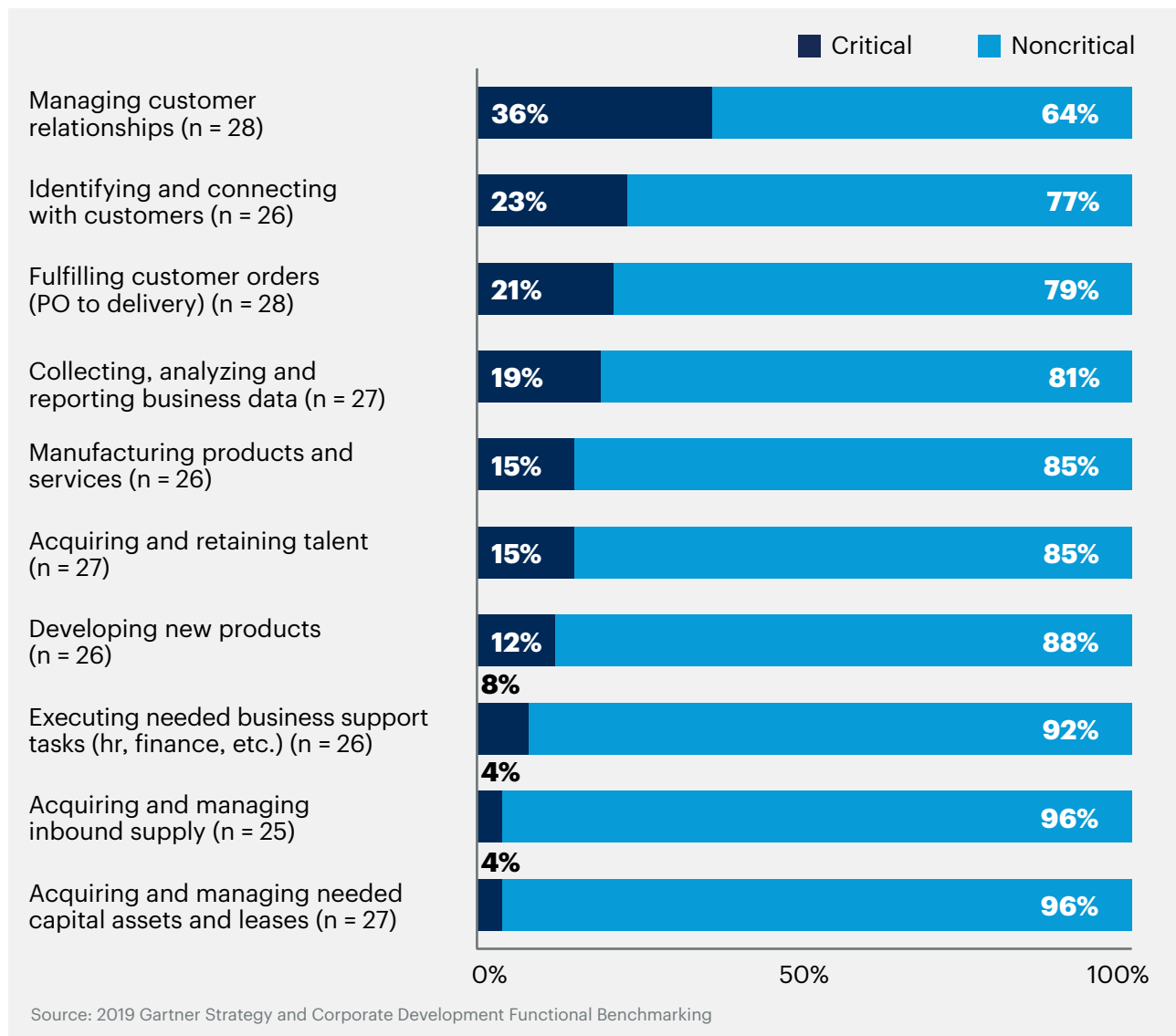
While multiple factors drive these spending trends, strategy leaders most commonly point to the siloed nature of digital investments. In particular, business unit and functional leaders:

- Have discretion over their allocated digital budgets, which inherently focus on optimization of the business unit and function as opposed to the enterprise.
- Lack the visibility and coordination mechanisms to understand the interdependencies and synergies between their digital investment decisions, reducing these investments' ability to create a more broad, transformational impact.

Reason 2: Digital investments are not yet critical to business operations

While companies turn to digital investments to enhance nearly every aspect of operations, from connecting with customers to managing inbound supply, these investments have yet to reach a point where they're deemed critical to any of these workflows. The majority of strategy leaders believe these investments create nice-to-have capabilities — for the area where digital is believed to be most critical, managing customer relationships; still, only 36% of strategy leaders shared this sentiment (see Figure 3). Even in areas where digital investments are typically expected to have the greatest impact, such as collecting, analyzing and reporting business data, the outcomes have been modest.

Figure 3. Criticality of digital investments to business model functionality
Percentage of respondents



So why haven't digital investments become critical to business operations? Frequent explanations cited by strategy leaders include:

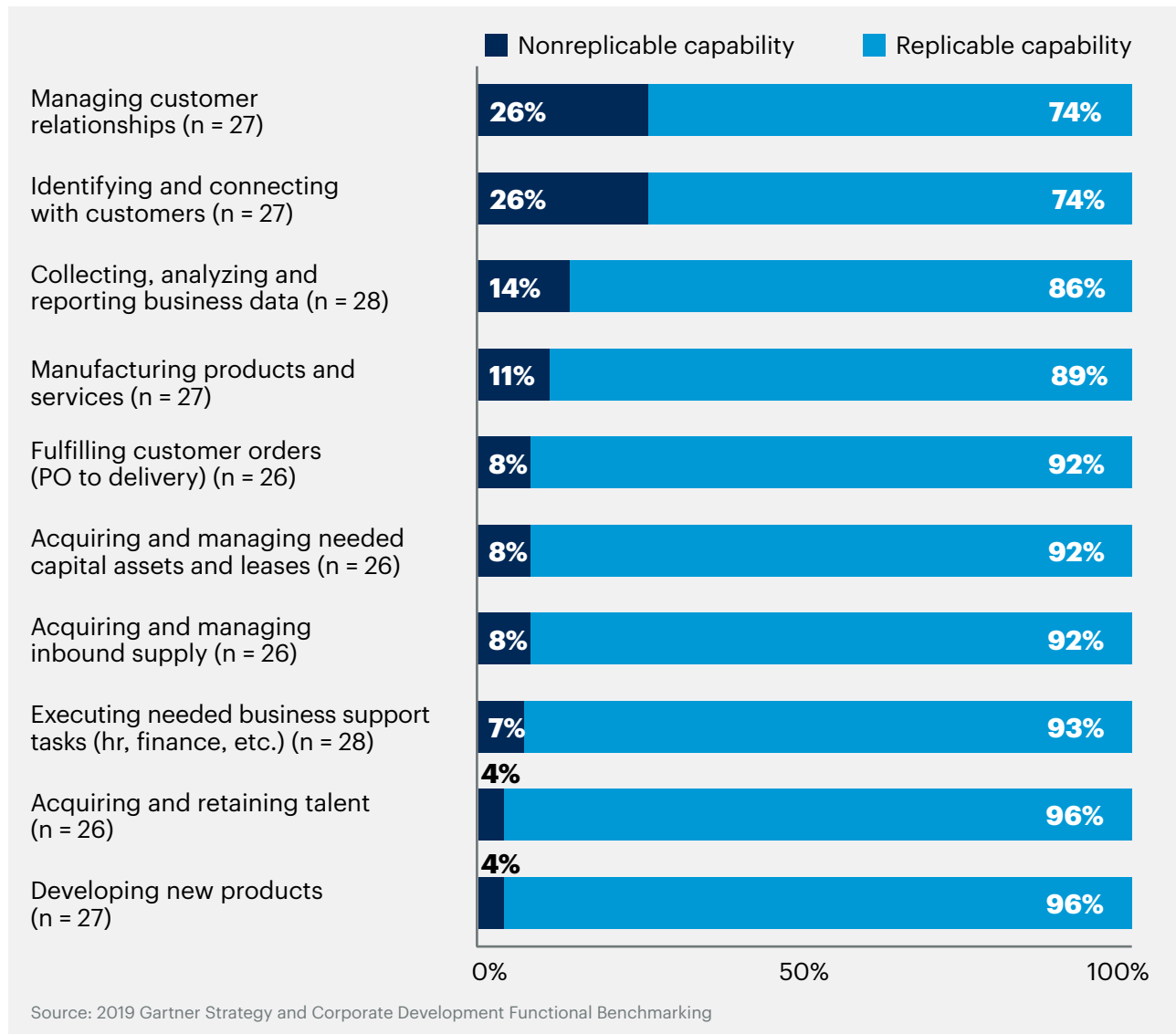
- Business risk aversion, as leaders are hesitant to disrupt critical processes unless absolutely necessary, especially given the inherent uncertainty of digital technologies.
- Poor execution, even when the right digital investments are made, resulting in digital investments not delivering the full capabilities expected.

Reason 3: Digital investments have not materially improved competitive advantages

Finally, the threat of disruption by startups exploiting new digital technologies has compelled businesses to consider how digital can be used to respond to sustain competitive advantage. But again, these efforts don't seem to be paying off: More than three-quarters of strategy leaders believe digital investments have failed to create nonreplicable capabilities (see Figure 4). Throughout the value chain, digital investments have not resulted in proprietary products, services or processes that enable much-needed differentiation.

Figure 4. Criticality of digital investments to competitive advantage

Percentage of respondents



Digital investments are more than just buying the latest technology. As strategy leaders rightfully note, they often fail to create competitive advantage because:

- The business gets caught up in a follow-the-leader mentality, which helps keep pace with the competition but does not differentiate if the industry is largely making similar investments.
- The organization does not have a broader digital strategy; without this, companies lack a shared idea of how resources (e.g., talent, processes, data) can be coupled with “generic” digital investments to create truly unique, differentiated business capabilities.

Conclusion

Despite the increase in digital investment and its priority for CEOs, the majority of strategy leaders believe their investments can be improved. In particular, they tell us:

- The digital budget is overweighted with current rather than new business models.
- Digital investments are not yet critical to business operations.
- Digital investments have not materially improved competitive advantages.

Strategy leaders should be aware of some of the common reasons for the current state of digital investments, which include:

- The siloed nature of digital investment decisions
- Business hesitancy to integrate unfamiliar digital capabilities into critical workflows
- The lack of an enterprise strategy that turns widely accessible digital capabilities into unique, company-specific differentiators

How We Help

The pathway to digital transformation is unclear, and current digital capabilities are insufficient to achieve transformation. Strategy leaders must approach their roles in a new way to drive the business to make enough of the large and transformative digital investments necessary to grow and evolve. Gartner can help: We provide strategists with the intelligence and tools needed to stay on top of market changes, potential opportunities and threats stemming from emerging digital technology and trends.

About Gartner

Gartner, Inc. (NYSE: IT), is the world's leading research and advisory company and a member of the S&P 500. We equip business leaders with indispensable insights, advice and tools to achieve their mission-critical priorities today and build the successful organizations of tomorrow.

Our unmatched combination of expert-led, practitioner-sourced and data-driven research steers clients toward the right decisions on the issues that matter most. We are a trusted advisor and objective resource for more than 15,000 organizations in more than 100 countries — across all major functions, in every industry and enterprise size.

Contact Us

Phone: 1 866 913 8102

Email: gartnerbusinessleaders@gartner.com

Web: gartner.com/go/strategy