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IS COVID-19 TO BLAME FOR DIGITAL TRANSFORMATION CHALLENGES IN 2020?

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IS COVID-19 TO BLAME FOR DIGITAL TRANSFORMATION CHALLENGES?

A Couchbase research report: Investigating whether COVID-19 has halted, boosted or simply redirected digital transformation progress

Executive Summary

In 2019, digital transformation was on the rise, organizations' strategies matured, and industries seemed ready to enter a boom period. However, in 2020, the COVID-19 pandemic caused many organizations to reappraise their approach. While national lockdowns meant organizations had to adapt to an overnight surge in working from home and provide digital alternatives to many services, accompanying economic challenges meant many would potentially be operating on a reduced budget.

To investigate whether the pandemic had sparked a new boom in digital transformation, had held enterprises back from meeting their ambitions, or whether it was even a significant factor compared to more entrenched challenges, Couchbase commissioned its fourth annual survey of IT decision makers. It asked how they had altered their operations in response to COVID-19, what was driving their transformation, and how they were progressing towards their digital transformation goals.

To begin, while digital transformation budgets haven't risen, the reaction to COVID-19 may have stopped those budgets from falling compared to the previous year. Organizations spent $27 million on digital transformation over the past 12 months, the same as in 2019. At the same time, while fewer organizations have made significant improvements to their end-user experience this year than previously, 17 percent have created an excellent end-user experience in their response to COVID. The evidence is that digital innovation has not stalled, but at worst has been redirected into dealing with the pandemic – creating experiences that are likely to still be valuable when the pandemic ends.

Similarly, as might be expected, COVID-19 has driven many organizations to take a reactive approach to digital transformation as adapting to new working conditions has taken priority. Yet the number of projects driven by innovative ideas from within the business almost doubled since 2019, from 8 percent to 14 percent. While organizations have had to react to changing circumstances, a growing number has also taken the opportunity to innovate, suggesting that we may have passed a watershed moment for truly creative digital projects.

Given the challenges of 2020, it's little surprise that digital transformation goals have been harder to meet. 45 percent of organizations are now more than six months behind their digital transformation goals. In total, 79 percent of organizations said their digital transformation projects have failed, suffered delays, or had to be scaled back in 2020, compared to 82 percent in 2019.

The pandemic has undoubtedly had an effect on digital transformation; however, it is not entirely negative. And it may have prepared organizations to better realize digital transformation's full potential.

Part 1: Has COVID-19 stalled digital transformation momentum?

In 2019, enterprises predicted digital transformation spend would keep rising – from an average of $27 million that year to $30 million in 2020. However, many might be less optimistic about digital transformation spend in the wake of COVID-19. Yet in fact the average digital transformation spend still rose slightly, to $27.5 million *(figure 1)*.
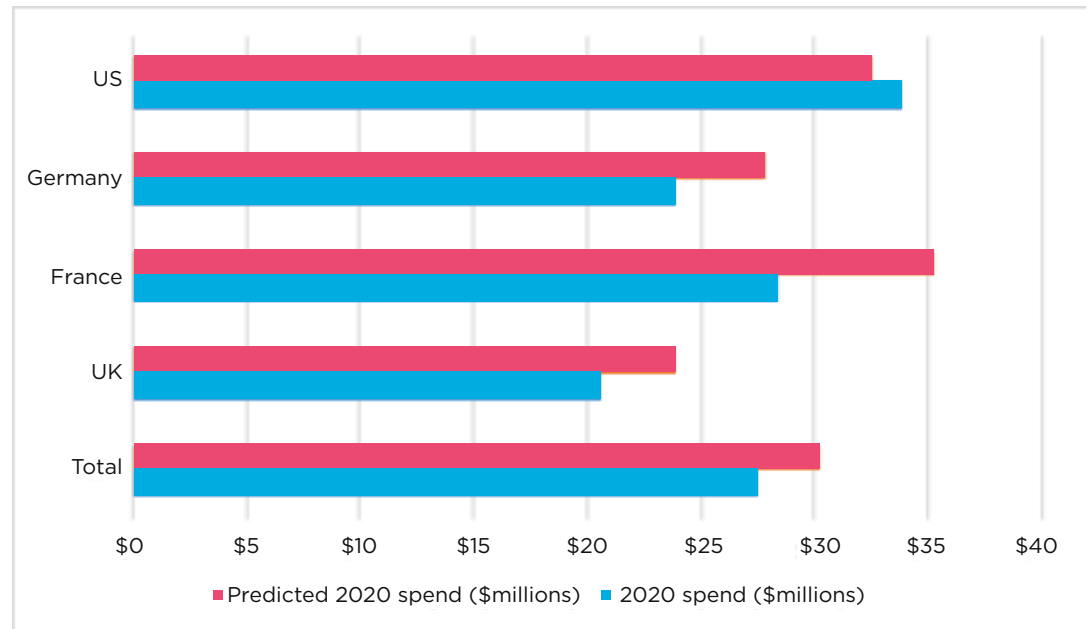

Figure 1: Average digital transformation spend in 2020 vs. predicted spend

The fact is, organizational transformation to enable a remote workforce, or to switch from a physical business to a digital service, still demands investment. On average, organizations increased their digital transformation budgets by two percent in response to COVID-19 – suggesting these reactions helped digital transformation budgets stay stable *(figure 2)*.
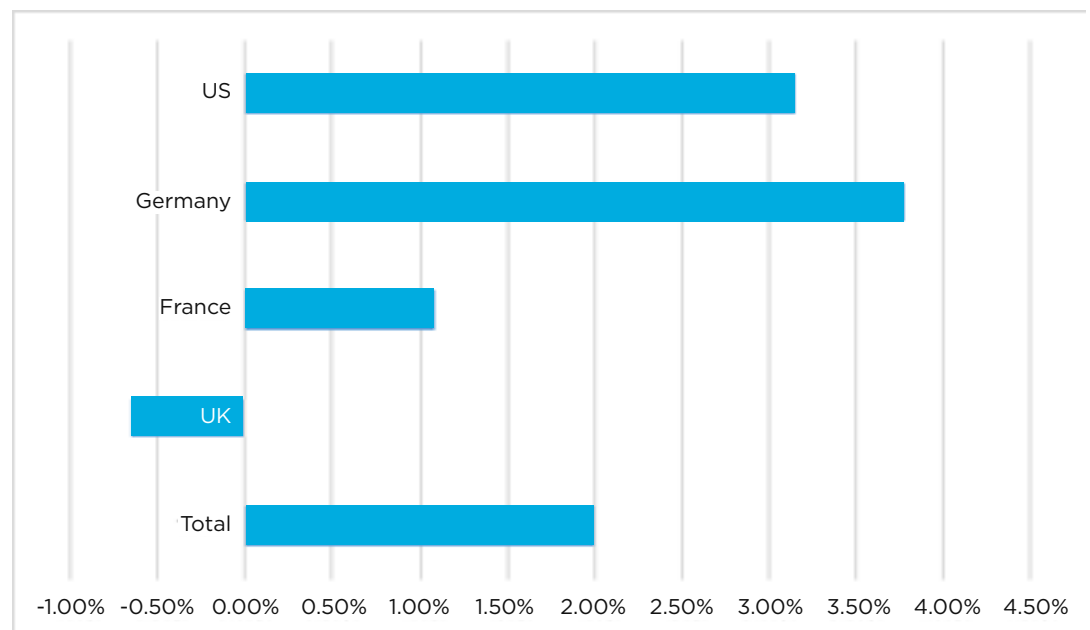

Figure 2: Average change in digital transformation budgets in response to COVID-19

COVID-19's impact on digital transformation is undeniable. Almost every organization has had to make at least some changes to their digital transformation plans due to the pandemic. 69 percent had to make "noticeable" or "major" changes to their plans, and eight percent had to completely change their plans and start again. As a result, it's likely that many digital transformation projects will have suffered as resources had to be diverted to adapting to COVID-19 *(figure 3)*.
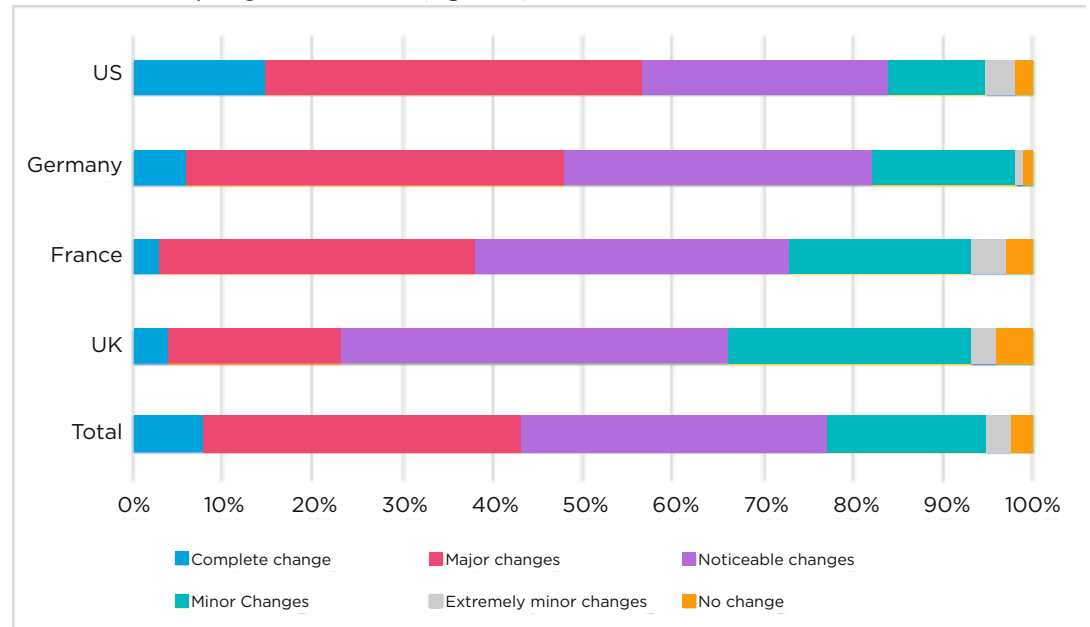

Figure 3: To what degree have organizations' digital transformation plans changed due to COVID-19?

One consequence of switching focus to COVID-19 is the expected outcome of any digital transformation projects. While organizations' original projects might have been focused on transforming the end-user experience – either by improving what was in place or creating an entirely new experience – it's possible that the need to quickly react to the pandemic means organizations would accept a less satisfying or transformative experience as long as it met their needs.

Indeed, only 55 percent of organizations made significant, transformative or revolutionary improvements to the end-user experience this year, compared to 73 percent in 2019. However, 17 percent created an excellent end-user experience in their response to COVID-19 *(figure 4)*.
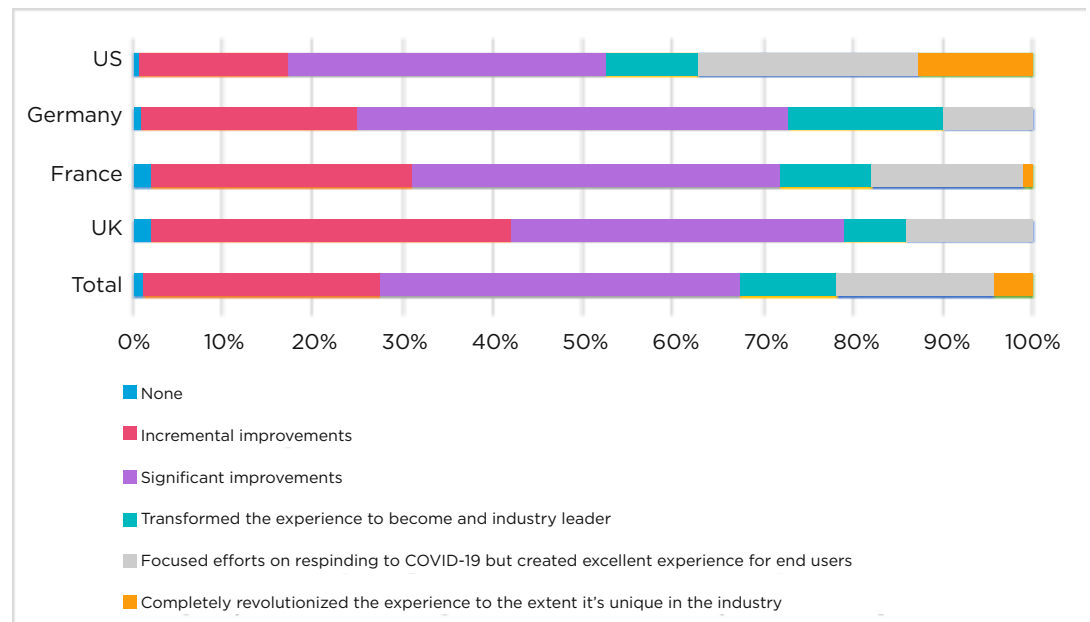

Figure 4: What improvements did organizations make to the end-user experience?

These results suggest that, while plans may have changed, IT innovation itself has not suffered. At worst, it has been redirected. It may even be that by demonstrating a clear and immediate need to innovate, the pandemic will kick-start a new digital transformation boom as organizations seek to build on the digital capabilities they have created in 2020.

Part 2: Has COVID-19 stalled digital transformation momentum?

A key element of successful digital transformation is that it is proactive, rather than reactive. Whether improving the customer or employee experience, or boosting productivity, ideas from within the organization are likely to be more creative – and create a truly revolutionary experience – than reacting to competitors.

In 2020, the pandemic has drastically shifted organizations' priorities. The second most common benefit organizations could show from digital transformation projects was the ability to keep the business operating during COVID-19, chosen by 55 percent of respondents. However, others included more efficient working processes (58 percent), improved customer experience (50 percent), increased worker productivity, and improved employee experience (both 48 percent), which was very close to 2019's results. While some of these benefits will also be the result of reactions to COVID-19, it seems there hasn't been a significant change in priorities aside from the initial need to operate *(figure 5)*.
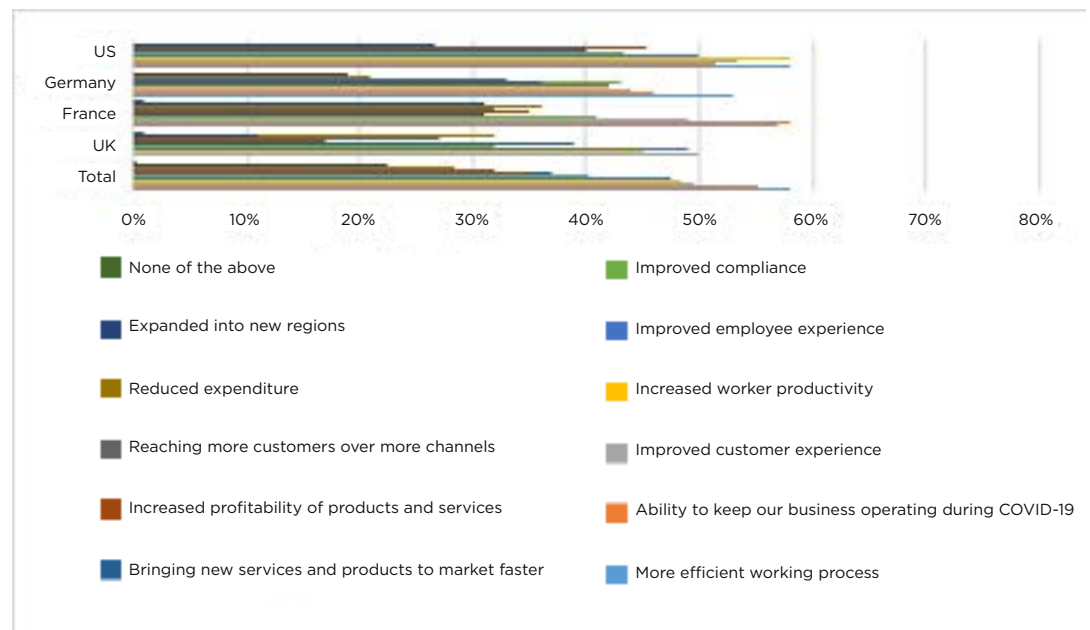

Figure 5: Benefits from digital transformation projects

Similarly, it might seem the pandemic has made organizations' digital transformation strategy more reactive, but the opposite appears to be true. While reacting to outside events such as COVID-19 was the primary driver for 18 percent of organizations' digital transformation projects in the past five years, for 14 percent the driver was an original idea from within the business. While less of a driver than COVID-19, this is still almost double the eight percent who chose it in 2019. Indeed, it puts internal creativity on a level with other factors driving digital transformation, when previously it has been far behind. This suggests we may have passed a watershed moment for more proactive approaches to digital transformation *(figure 6)*.

US
Germany
France
UK
Total

0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

- Responding to advances made by competitors
- Reacting to outside events - e.g. COVID-19
- Responding to changes in regulation
- An original idea from within the business
- Pressure from customers for new services
- Pressure from the C-Suite
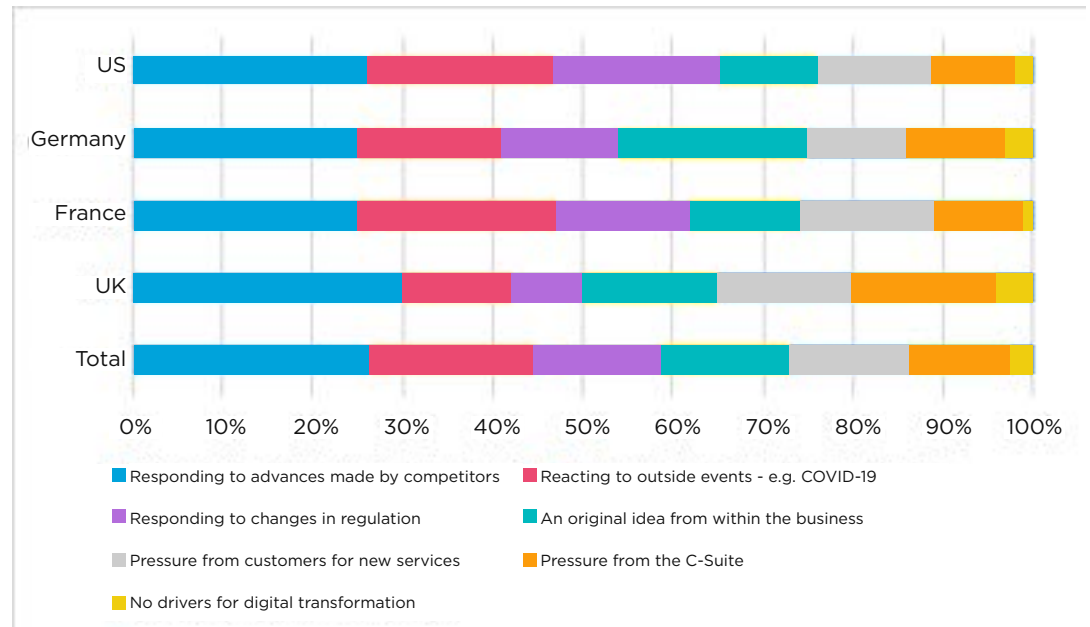- No drivers for digital transformation

Figure 6: Primary drivers behind organizations' digital transformation projects in the past five years

While the above is positive news, previous reports have made it apparent that many organizations need to review their digital transformation strategy. Ideally, the C-Suite should drive digital transformation and measure its progress, as transformation should be tied into the wider business strategy. However, it seems the immediate need to adapt to new ways of working and doing business has prevented this. Digital transformation strategy is set very much in the same way as in 2019: by the IT team in 54 percent of organizations, and by the C-Suite in 36 percent. Similarly, progress towards digital transformation goals is measured by the C-Suite in 36 percent of organizations. Hopefully, with organizations more familiar with how to adapt to COVID-19, they can again concentrate on ensuring the C-Suite is more involved in digital transformation *(figure 7)* *(figure 8)*.

US
Germany
France
UK
Total

0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

- Strategy is set by the IT team
- Strategy is set by the C-Suite
- Strategy is set by separate business areas - e.g. HR, marketing, etc.
- No defined digital transformation strategy

Figure 7: Who drives digital transformation strategy?

US
Germany
France
UK
Total

0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

■ The C-suite directly measures digital transformation goals

■ Mid-level managers measure digital transformation goals and report back to the C-suite

■ Mid-level managers measure digital transformation goals but do not report progress back to the C-suite

■ Nobody (C-suite or mid-level managers) measures digital transformation goals
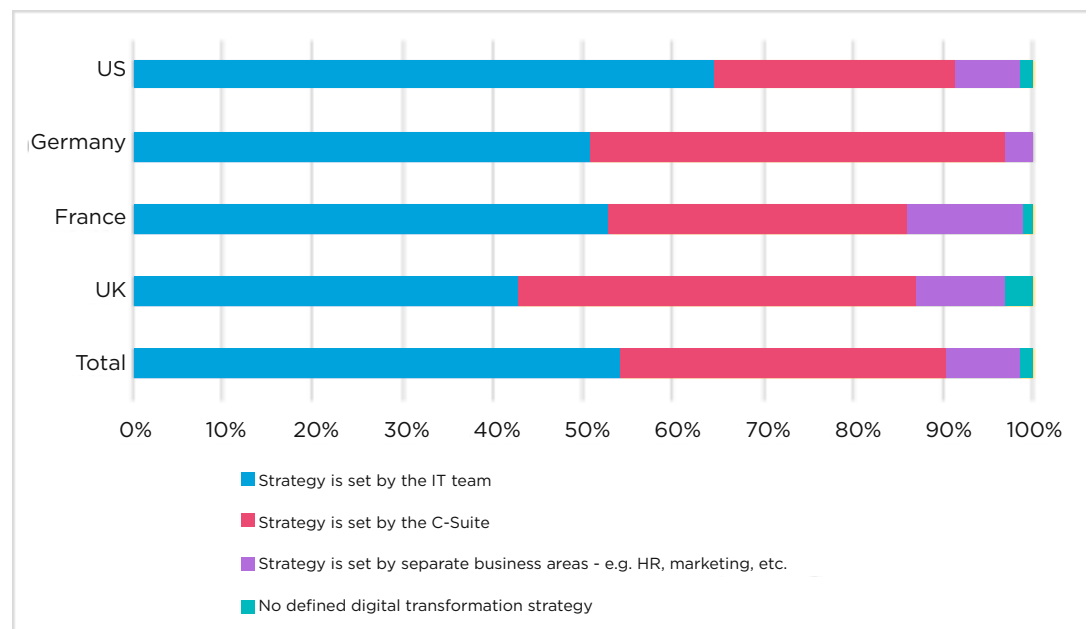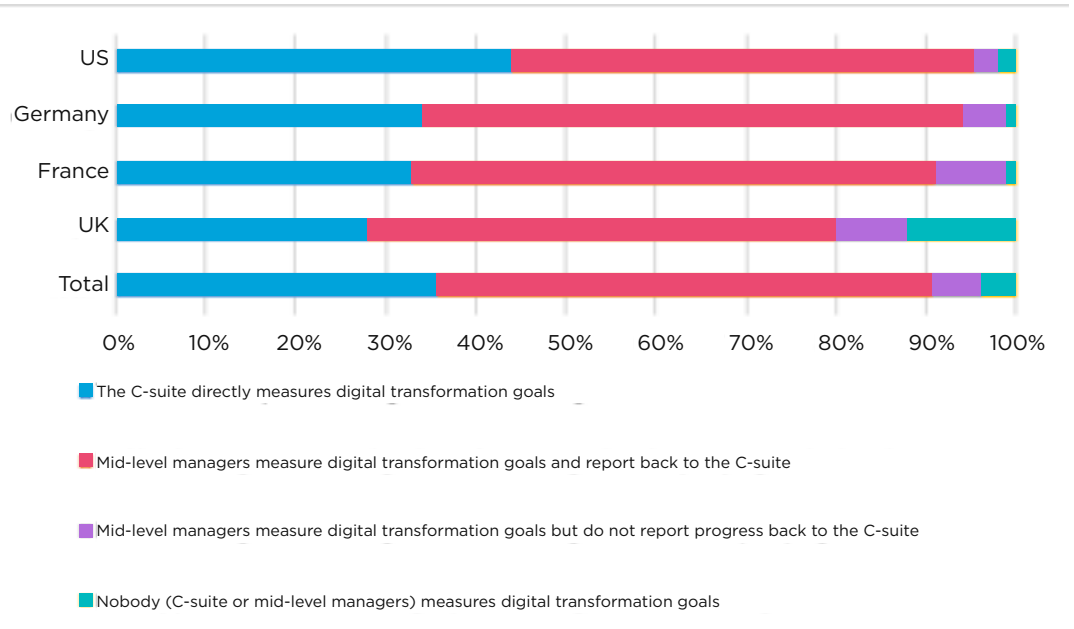
Figure 8: Who measures digital transformation progress?

Similarly, the reaction to the pandemic seems to have prevented many business leaders from reappraising their opinions of digital transformation. 70 percent of respondents agree that business leaders are fixated on the promise of digital transformation, to the extent that IT teams risk working on projects that may not deliver tangible benefits. This is almost identical to 2019's 71 percent *(figure 9)*.

US
Germany
France
UK
Total

0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

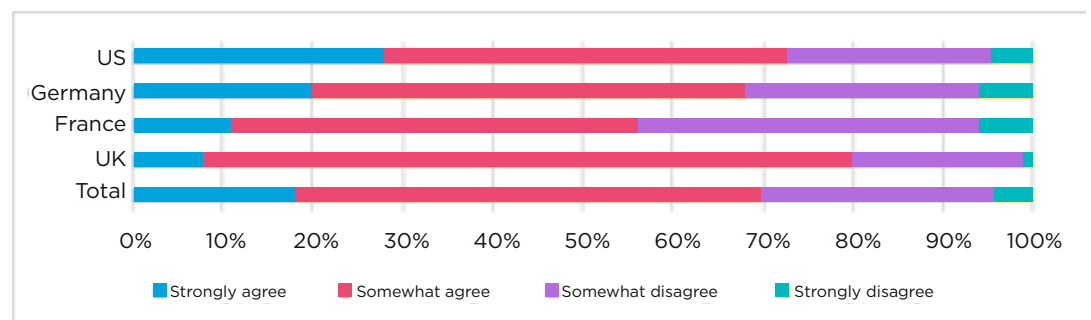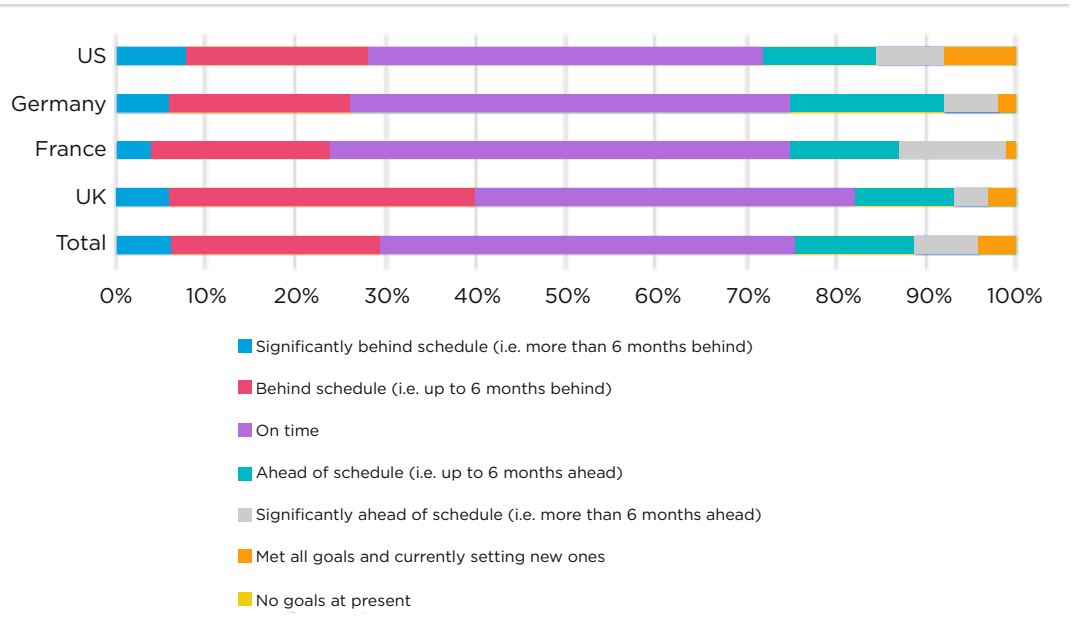■ Strongly agree   ■ Somewhat agree   ■ Somewhat disagree   ■ Strongly disagree

Figure 9: Do respondents agree that business leaders are fixated on the promise of digital transformation?

While there is still a need to review digital transformation strategy, and ensure digital transformation has realistic goals, overall organizations' approach to digital transformation seems remarkably positive. Indeed, if the pandemic has helped drive a more proactive, creative approach to digital transformation then next year may see projects reach their full potential.

Significantly behind schedule (i.e. more than 6 months behind)

Behind schedule (i.e. up to 6 months behind)

On time

Ahead of schedule (i.e. up to 6 months ahead)

Significantly ahead of schedule (i.e. more than 6 months ahead)

Met all goals and currently setting new ones

No goals at present

Diverting resources in reaction to the pandemic has certainly affected many projects. 31 percent of organizations have been prevented from pursuing digital transformation projects in the last 12 months because of the need to divert resources. 29 percent have seen projects fail, suffer delays, and/or be scaled back for the same reason. Yet there are other factors – including the complexity of implementing technologies, reliance on legacy technology that could not meet new digital requirements, and lack of resources or skills that also have a significant effect. Organizations can accept that reacting to COVID-19 was a one-off event, but they have to take action to solve these other, potentially long-standing issues *(Figure 11)*, *(Figure 12)*.

- **The need to divert resources to adapt to Covid-19**
- **Reliance on a legacy technology that could not meet new digital requirements**
- **Lack of skills to deliver the digital project**
- **Perception that the risk of failure was or had become too high**
- **Lack of buy-in or support from across the organisation**
- **Inability of development team to meet the goals set for them**
- **Don't know**
- **The complexity of implementing technologies**
- **Lack of resources/funds**
- **Inability to secure the necessary budget or stay within budget**
- **Problems accessing or managing the required data**
- **Lack of buy-in or support from the C-Suite**
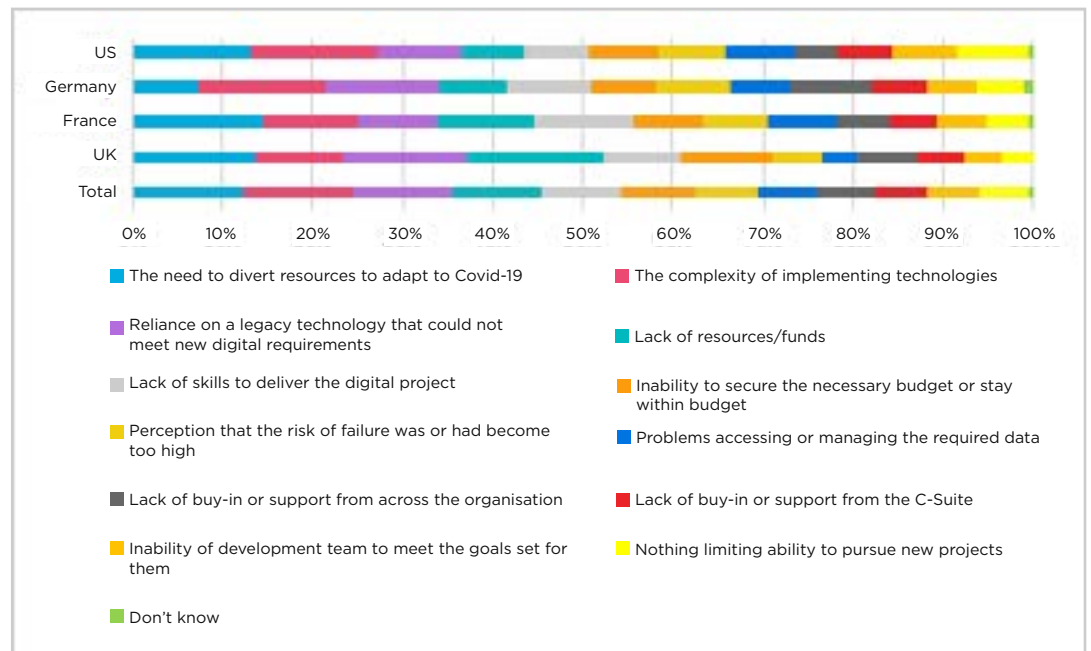- **Nothing limiting ability to pursue new projects**

Figure 11: Factors preventing organizations from pursuing digital transformation projects in the last 12 months
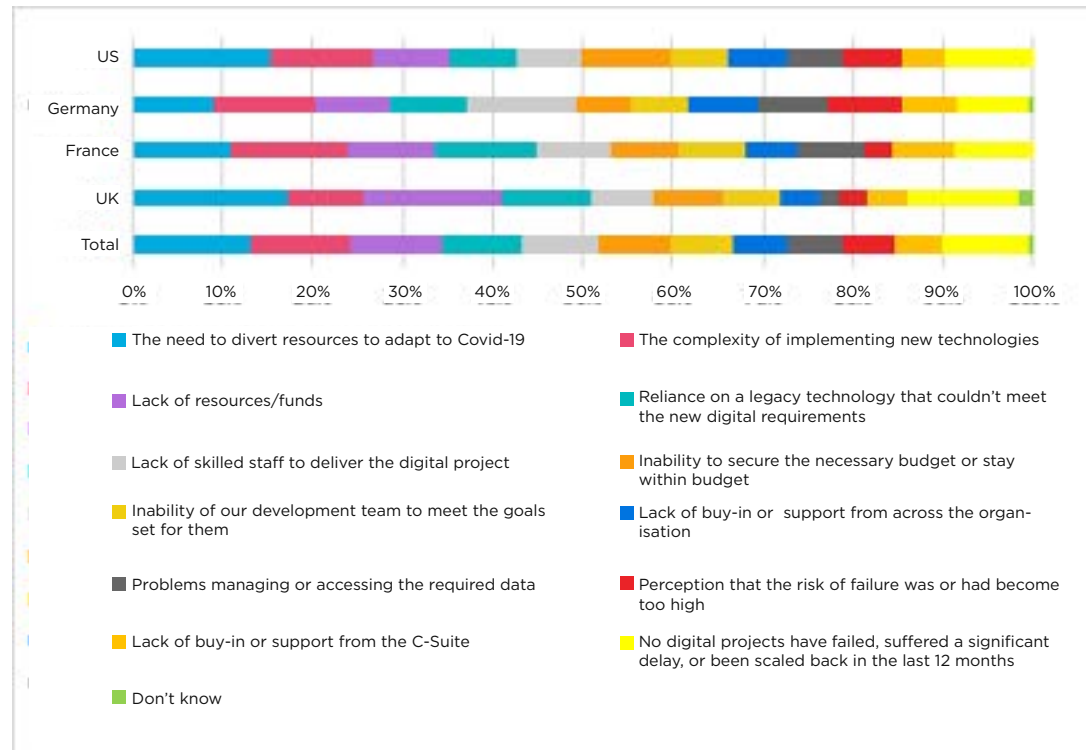
Figure 12: Factors causing active digital projects to fail, suffer a significant delay, and/or be scaled back in the last 12 months

However, again there is cause for optimism. The 79 percent of organizations that have seen digital transformation projects fail, suffer a significant delay, and/or be scaled back, represents an improvement over 2019. Despite COVID-19, there is still progress *(Figure 13)*.
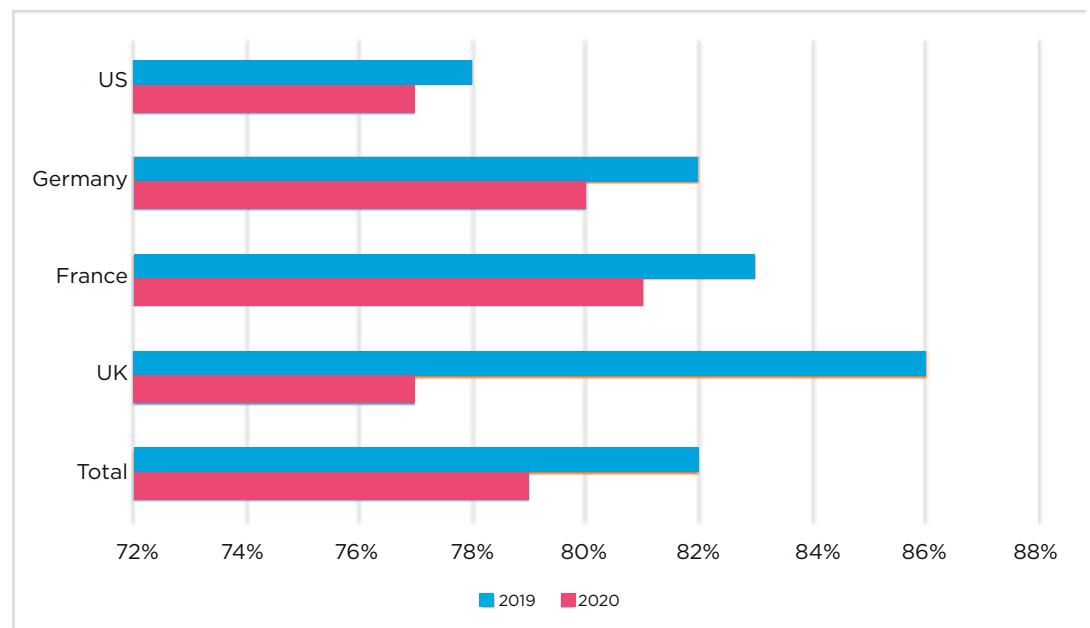

Figure 13: Organizations that have seen digital transformation projects fail, suffer a significant delay, and/or be scaled back, year-on-year

Digital transformation projects that fail, are delayed, or scaled back don't only have an effect on the organization's goals. The waste of invested resources can also represent a significant financial impact. On average, organizations invested 20.1 percent of their digital transformation budgets – or $5.5 million – in such projects in the last 12 months *(figure 14)*.
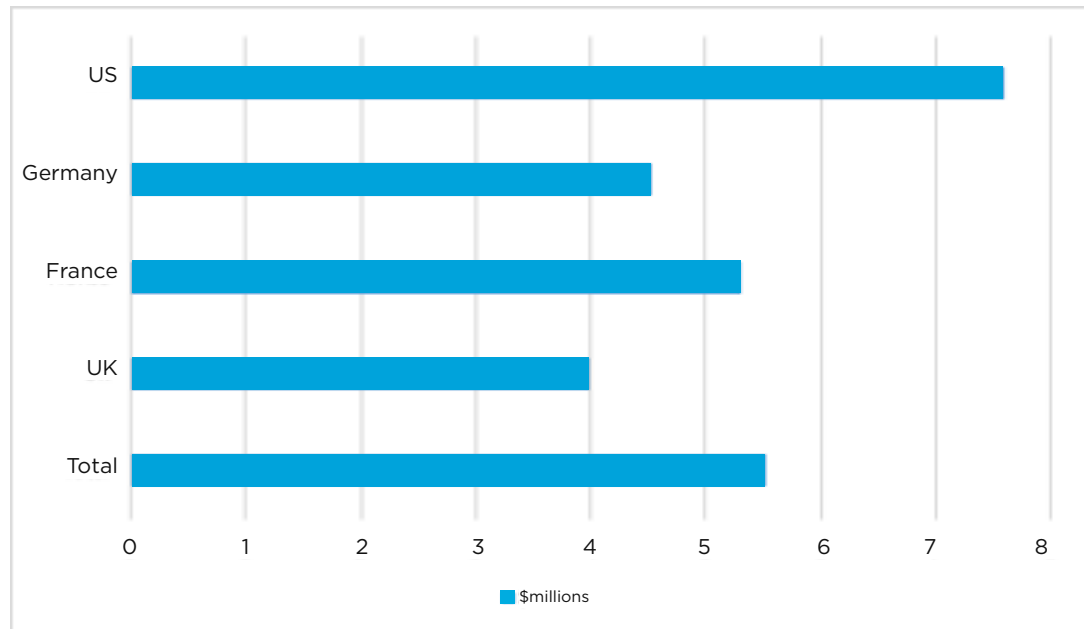
Figure 14: Amount invested in failed, delayed or scaled back projects

At the same time, the impact on strategic goals cannot be denied. 72 percent of organizations have had to push their strategic goals back by more than a month, or even reset them completely, because of failed, delayed or scaled back digital transformation projects. This makes clear the importance of solving those factors hindering digital transformation projects. If they aren't dealt with, businesses will see a real strategic and financial impact *(figure 15)*.
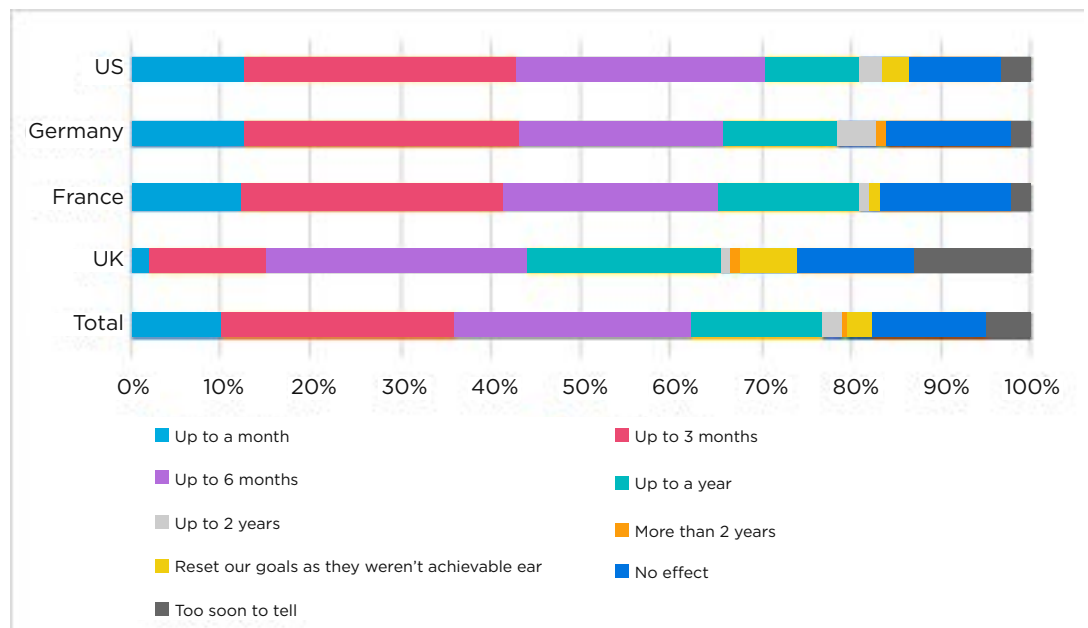

Figure 15: Effect of disrupted digital transformation projects on organizations' overall strategic goals

Interestingly, when asked about other potential risks to the business caused by a failure to digitally innovate, respondents' concerns have changed little, or have even decreased. 39 percent are concerned that they would become less relevant in the market (compared to 46 percent in 2019), 35 percent fear they will lose IT staff to more innovative competitors (compared to 42 percent), and 33 percent believe staff in other areas of the business will leave (compared to 32 percent). As in other areas, it's possible that the very real risks prevented by COVID-19, and the strategic and financial costs of disrupted projects, have occupied peoples' minds instead *(figure 16)*.

Legend:
- No risks from not successfully digitally innovating
- Other
- Respondent will lose their job
- Go out of business or be absorbed by a competitor in the next 3 years
- Struggle to secure corporate finance or undergo a successful IPO
- Lose valuable staff in other areas of the business to more innovative competitors
- Lose valuable IT staff to more innovative competitors
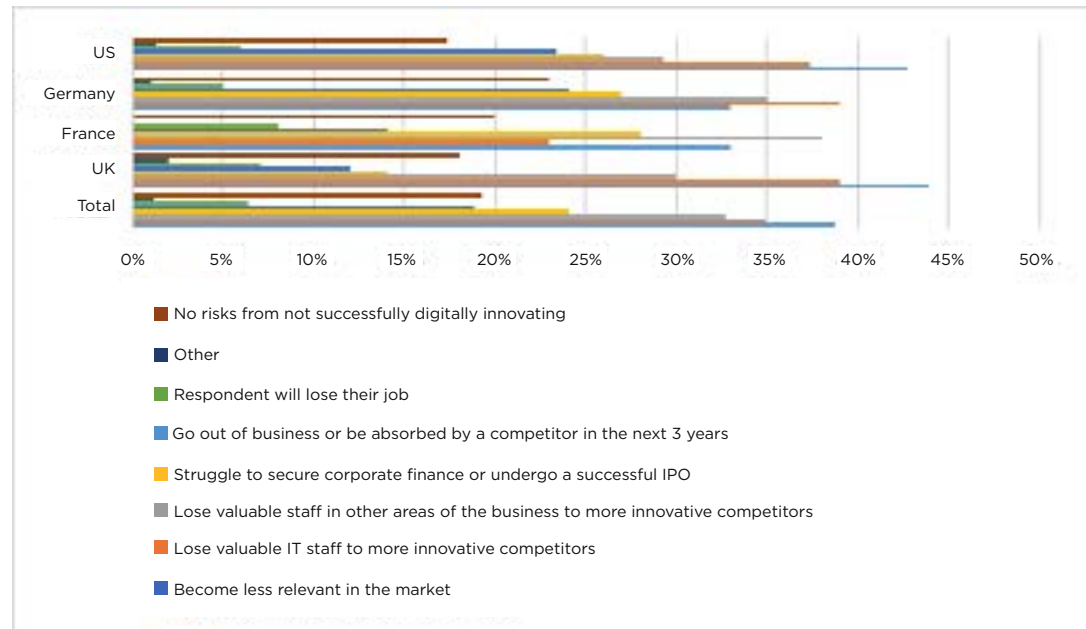- Become less relevant in the market

Figure 16: Potential consequences of a failure to digitally innovate

Conclusion:

It is too soon to either review or predict COVID-19's effect on digital transformation, or on organizations as a whole. Naturally, the majority will have focused on keeping their employees and those in their care safe, keeping themselves operational, and then adapting to new ways of working and operating.

As we head into 2021, there are signs the pandemic has not halted digital innovation, and in some areas, may have boosted it by giving organizations and consumers a real taste of remote working and digital services. However, in the next year, organizations will face two challenges.

First is the need to understand which new experiences were a short-term reaction to the pandemic, and which represent permanent changes to the way we live, work, and do business. Focusing on the right projects will help organizations make significant leaps.

Second, organizations still need to address those factors holding digital transformation back. Without this, additional costs and delays to business strategies could cost organizations dearly.

However, organizations have shown they are capable of proactive digital innovation, and are reducing the number of failed, delayed, or scaled back projects. If they can continue on this route, the digital future looks bright.

About Couchbase

Unlike other NoSQL databases, Couchbase provides an enterprise-class, multicloud to edge database that offers the robust capabilities required for business-critical applications on a highly scalable and available platform. As a distributed cloud-native database, Couchbase runs in modern dynamic environments and on any cloud, either customer-managed or fully managed as-a-service. Couchbase is built on open standards, combining the best of NoSQL with the power and familiarity of SQL, to simplify the transition from mainframe and relational databases.

Couchbase has become pervasive in our everyday lives; our customers include industry leaders Amadeus, American Express, Carrefour, Cisco, Comcast/Sky, Disney, eBay, LinkedIn, Marriott, Tesco, Tommy Hilfiger, United, Verizon, as well as hundreds of other household names. For more information, visit www.couchbase.com.

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