

Navigating Digital Transformation Failures

How to Drive Successful
Implementation in Supply Chain

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Abstract

Digital transformation has become a strategic imperative for businesses across industries. Organizations can't afford to fail at digital transformations, given that "we have now entered the era of the digital business, where transformation must be part of enterprise DNA," according to IDC's 2023 FutureScape: Worldwide CIO Agenda 2023 Predictions. Yet success remains the exception, not the rule: research shows that their efforts fail more than 70 percent of the time. But even companies with successful transformations don't always capture the full financial benefits of these efforts. This whitepaper explores common digital transformation failures and outlines where value is lost and what companies can do to preserve it.

1. Introduction

Digital transformation promises to revolutionize supply chain operations by integrating cutting-edge technologies, optimizing processes, and enhancing decision-making. However, numerous organizations struggle to achieve the desired outcomes due to various obstacles and missteps. Digital transformation failures can stem from factors such as inadequate planning, lack of stakeholder alignment, suboptimal software selection, insufficient change management, and implementation challenges. Identifying these failure points is crucial for organizations to proactively address them and pave the way for successful transformation.

2. Common digital transformation failures

In this white paper, we will focus on three main area where companies and high management can make the difference.

2.1 Inadequate target definition and employee onboarding

The extent to which an organization comprehensively utilizes factual information to evaluate the highest possible advantage it can attain from a transformation, directly influences the level of assurance leaders possess in establishing and actively pursuing ambitious, yet feasible goals that accurately represent the transformation's complete potential. Establishing targets, whether they are financial or not, for the transformation constitutes a crucial initial step that greatly influences the entire program and its potential outcomes. By setting high expectations, companies tend to inspire individuals to meet those expectations.

However, it is insufficient to solely establish effective and ambitious aspirations for the transformation. It is imperative for people to comprehend the implications of these goals on their daily tasks and the changes they will be expected to make. Without understanding the connection between their work and the transformation, there will be no meaningful shift in behaviours or work practices. To foster success for the overall project, it is necessary to set specific targets for each business area and implement tangible objectives for employees at all levels, thereby creating an environment conducive to achieving the desired outcomes. You need business leadership to say, 'I own the outcomes and tech owns the delivery of that'.

2.2 Implementation challenges

Complex implementation processes, integration issues, and inadequate resource allocation can impede the successful execution of digital transformation projects, especially in times of IT competences shortage.

Moreover, many companies frequently impose an accelerated timeline for these projects. Often, software vendors and their partners are keen on setting unrealistic expectations regarding the duration of the activities to expedite the contract signing process. It is increasingly common to encounter estimated projected implementation timelines as short as 4 weeks, even for complex manufacturing industries undergoing full Enterprise Resource Planning (ERP) and Supply Chain Management (SCM) implementations.

As a consequence, this places a mounting pressure on both the IT department and the business units, compelling them to release incomplete solutions, implement untested processes, and sometimes even go live with partial data. Organizations must address these challenges by adopting a structured approach, leveraging expertise, and ensuring the right resources and capabilities are in place.

Furthermore, it is crucial for companies to develop a comprehensive digitalization strategy that extends beyond individual projects. It is essential for these initiatives to have dedicated budgets and long-term commitments spanning multiple years, ensuring their continuity and resilience in both favorable and challenging times. Organizations, and especially the CFO, must have a clear understanding of the returns on investment — how will they be manifested and when, so there is no expectation the ROI will be immediate. Otherwise, there's a risk of judging the beginning as a failure instead of the start of a long-term success.

2.3 Managing the cultural change shock

While digital transformations typically have architecture and technology solutions challenges, culture change is the No. 1 challenge for the whole organization. Proof is that according to recent studies by McKinsey, 20 percent of value loss occurs after implementation, once the initiatives have been fully executed.

The potential for value loss in a transformation begins as early as day one, and the largest share of value is lost during implementation.

When maximum financial benefit was lost, by transformation phase,¹ %



¹We defined "financial benefit" as the potential increase in earnings before interest, taxes, depreciation, and amortization (EBITDA) that the transformation could have achieved. Respondents who answered "don't know/not applicable" are not shown.



Stakeholders are used to the way they're working and there is change resistance and that is to be managed. It's about "bringing them on a journey" and figuring out how to manage change.

In this respect, Organizations must prioritize change management, ensuring effective communication, training programs, and support to help employees embrace the new technologies and processes introduced during the transformation.

Resistance to change and a lack of employee buy-in can undermine the success of digital transformation initiatives.

Conclusion

Digital transformation, especially in supply chain solutions, holds immense potential for organizations seeking to optimize their operations, increase agility, and stay ahead of the competition. However, navigating the complexities of digital transformation and avoiding common pitfalls requires expert guidance and a strategic approach. Ai2 Consulting serves as a trusted partner in this transformative journey, offering tailored solutions, industry expertise, and a comprehensive range of services.

From software selection to implementation, change management, and continuous optimization, Ai2 Consulting brings a wealth of experience and a deep understanding of supply chain dynamics. We work collaboratively with organizations, leveraging our expertise in AI, advanced analytics, and emerging technologies to drive successful digital transformations.