DIGITAL TRANSFORMATION BUDGET TRENDS IN INDUSTRIAL COMPANIES

KEY QUESTIONS:

P2
Can you really budget for digital transformation since it represents more than adoption of new technologies?

P3
Are budgets for transformational technologies increasing, decreasing or staying the same?

P4
What does the future hold for digital transformation budgets and how will companies leverage technology to effect change?
DIGITAL TRANSFORMATION
BUDGET TRENDS IN
INDUSTRIAL COMPANIES

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EXECUTIVE SUMMARY

Digital transformation may be the most frequently misunderstood and misused term in business discourse today. Technology vendors love to talk about digital transformation. But while digital transformation involves the use of digital technologies that may be purchased, simply adopting a new technology does not deliver digital transformation.

While companies may need to budget for the technologies that enable transformation, it is the creative application of these technologies that can truly transform business models and drive business results beyond incremental year-over-year increases.

Just as Uber enabled a startup company to harness the vehicles owned by independent contractors and dispatch them based on demand in real time, new technologies are being applied to transform existing, traditional industries including manufacturing, field service, oil and gas, and aerospace and defense. Thanks to the steady progression of technology adoption in many industries, we are seeing significant sea changes in the results of a primary research study conducted by IFS among 200 industrial executives.

As new technologies become widely available, and as businesses adopt them, this in turn enables wholesale change in how organizations create and exchange value. We see this pattern playing out in the study results. Companion studies available from IFS also highlight how companies in specific industries are leveraging technology to augment product offerings with services or make manufacturing more responsive to customer demand. But in this document, we will look at planned expenditures among respondent companies. Are they planning to spend more or less on digital transformation in the years to come? What projects are currently funded? What types of disruptive technology have they already implemented? How will digital transformation affect who leads and who follows in coming years.

An analysis of study data provides significant takeaways:

- Just over half of respondents expect their budget for digital transformation initiatives to increase in the next two years. Less than 5 percent expect their budget to decrease, leaving a sizable minority of 42 percent expecting budgets to remain the same.

- Some companies are better prepared for digital transformation than
A 2017 IFS study showed that 38 percent of respondents were Digital Transformation Laggards. Of that, 5 percent indicated their software was actually an impediment as opposed to under 3 percent in the 2018 study. This indicates a rapid increase in technological sophistication as the percentage of Digital Transformation Laggards has fallen by 18 percent.

- Companies have already made software investments to prepare for digital transformation. A 2017 IFS study of a similar demographic showed that 38 percent of respondents were Digital Transformation Laggards. Of that, 5 percent indicated their software was actually an impediment as opposed to under 3 percent in the 2018 study. This indicates a rapid increase in technological sophistication as the percentage of Digital Transformation Laggards has fallen by 18 percent.

- Those who are behind on digital transformation are positioning themselves to catch up by budgeting more for transformational technologies. Digital Transformation Laggards were 6 percent more likely to say their budget would increase by 10 percent or more.

- While internet of things (IoT), augmented reality (AR) and artificial intelligence (AI) grab headlines, predictive analytics are the most frequently budgeted transformational technology for the next two years. Companies that already have analytics systems in place were more likely to identify themselves as Digital Transformation Leaders.
1. COMPANIES ARE BUDGETING AGGRESSIVELY FOR DIGITAL TRANSFORMATION.

The majority of study respondents, 54 percent, said their budget for digital transformation was increasing. More than 36 percent said their budget would increase by more than 10 percent—which is a significant boost in a typical enterprise technology budget.

Digital Transformation Leaders had more transformational technology already in place. The largest gap was in analytics, where Digital Transformation Leaders were more likely to have systems in place that enabled them to “use data to predict rather than react.”

Interestingly, the two groups were nearly in a dead heat when it came to the IoT, and Digital Transformation Laggards were more likely to cite funded initiatives around AI.

IFS’S RESPONSE

“Mobility and analytics are the most readily available transformational technologies, and current investment is going there broadly across industrial sectors. While Digital Transformation Laggards appear to be investing just as heavily in IoT and AI as other companies, that may be because they are investing in plant floor automation—which Digital Transformation Leaders already have in place. Digital Transformation Leaders would be more likely investing in IoT for business decision making. When you say AI to the Digital Transformation Leaders, they likely think of AI to support the business decision making process.”

RICK VEAGUE, CTO, NORTH AMERICA, IFS
2. COMPANIES HAVE ALREADY RAPIDLY INCREASED THEIR READINESS FOR DIGITAL TRANSFORMATION.

While budgets for digital transformation initiatives are set to increase, there is evidence of investment in the past years. A comparison of the data in this study with data IFS collected from a similar sample in 2017 shows a 26 percent increase in Digital Transformation Leader status.

Enterprise technologies may take months to implement and years to fully manifest and transform an organization. Therefore, the transformational technology likely responsible for this double-digit change is ERP software. In 2015, according to a Panorama Consulting study, 81 percent of companies had already implemented ERP software or were in the process of implementation. Software license sales revenue numbers also show a rapid increase in ERP software adoption that could contribute to a delta in digital transformation readiness. Statista data reveals that ERP software sales increased from $23.8 billion in 2011 to $25.4 billion in 2013, with expected growth to $34.4 billion in 2017.

As a whole, Digital Transformation Leaders were more likely than the sample to say their enterprise software—including ERP—had prepared them for digital transformation by:

- Providing native connectivity to data from the IoT
- Providing an open architecture so any part of the application can be exposed as a web service
- Being mobile-friendly across the entire application suite
What has your enterprise software done to help prepare your company for a digital transformation?

- Native functionality to incorporate data from the Internet of Things.
- Open architecture so any portion of the application can be exposed as a web service.
- Mobile-friendly across the entire application suite (not just CRM or specific modules).
- Offers native Android and/or iPhone apps for tasks commonly performed on the go.
- Built-in role-specific dashboards so each user has key information at their fingertips.
- Easy to configure and re-configure so the software can evolve with changing business processes.
- Designed for easy and fast upgrades.
- Artificial Intelligence.
- Functionality to support Augmented Reality.
- Functionality to support Virtual Reality.
- Other (please specify)

IFS’S RESPONSE

“A lot more companies feel they are prepared for digital transformation now than a year ago. It is not likely that 20 percent of the market replaced their enterprise systems. It takes longer than that to identify a project, select technology and implement. Some may have already had projects in place and seen them come to fruition. But a good percentage are now, a year later, just more aware of the possibilities. There are simple wins to be had by leveraging more accessible technologies like mobility and increasingly, IoT. Now that enterprise software vendors have planned their offerings around these technologies, the pace of change can pick up quickly. Those who cannot change at the pace of their competitors will be left behind.”

RICK VEAGUE, CTO, NORTH AMERICA, IFS
3. LAGGARDS AND SMALLER COMPANIES SETTING A COURSE TO CATCH UP.

Digital Transformation Laggards are on a course to catch up to their more progressive counterparts, potentially disrupting markets as smaller, nimble companies overtake market leaders.

Among Digital Transformation Laggards, 22 percent expected their budget to increase by 10 percent or more, versus only 16 percent of Digital Transformation Leaders. The two groups were in a statistical dead heat when it came to those expecting their budget to increase by less than 10 percent. But 44 percent of Digital Transformation Leaders said they expected their budget to stay the same as opposed to only 29 percent of Digital Transformation Laggards.

As would be expected, the largest companies in the study—those with more than $5 billion in revenue—were most likely to report plans to increase digital transformation budgets by more than 10 percent. While 28 percent of these large enterprises reported aggressive budget increases, the second most aggressive companies were middle-market companies with revenue between $100 million and $250 million. Next came $500 million and $1 billion, in a statistical dead heat with the smallest companies in the study—those with less than $50 million in revenue.

Do you expect your company's budget for these and other digital transformation-enabling technologies to increase, decrease or stay the same over the next two years?

- Increase modestly (less than 10 percent)
- Increase significantly (more than 10 percent)
- Stay the same
- Decrease modestly (less than 10 percent)
- Decrease significantly (more than 10 percent)
Do you expect your company’s budget for these and other digital transformation-enabling technologies to increase, decrease or stay the same over the next two years?

**IFS’S RESPONSE**

“At IFS, we are seeing more midsized companies investing in transformational technologies. The cost of technologies has come down whereas cost may have been prohibitive a few years ago. A lot more companies are providing access to IoT technology through highly accessible cloud and SaaS-based software solutions, and barriers to adoption are falling.”

**RICK VEAGUE, CTO, NORTH AMERICA, IFS**
METHODOLOGY
IFS in North America designed a survey instrument to capture insights on how manufacturers and other industrial companies were being affected by digital transformation. IFS then collaborated with the research arm of IEN, a joint venture between Thomas Register and Rich Media Group, which collected 200 survey respondents from a sample of industrial executives. Respondents were asked a screening question on whether they were involved with decisions about or usage of enterprise software in their company, and only those who responded in the affirmative were allowed to take the survey. Data collection and tabulation were managed by Jeff Reinke of IEN. IFS in North America reviewed these tabulations and cross-tabulations to draw inferences relevant to enterprise technology used to manage industrial organizations in specific NAICS codes including:

- Contractors:
  - 238220 – HVAC
  - 515 – Telecom
  - 517 – Telecom

- Manufacturers that service
  - 332* – Fabricated Metal Manufacturers
  - 333* – Machine Manufacturers
  - 334510 – High Tech manufacturers
  - 3391 – Med Device

- General Manufacturing
  - 332*
  - 333*
  - 334*
  - 335*
    - B – Excludes 3364 (Aircraft Manufacturing) and 336992 (Military Vehicle Manufacturing). See Defense Manufacturing table for details.

- A&D Civil Aviation
  - 481*
  - 4881*
  - 488999

- Oil & Gas
  - 211*
  - 213111
  - 213112
  - 32411*
  - 4869*

- Food & Beverage
  - 311*
    - Exclude 3115 (Dairy Manufacturing, 3116 (Carcass Processing), and 31181 (Retail & Commercial Bakeries)
  - 312*
• Defense Manufacturing
  o 334511
  o 3364*
  o 336992
RESULTS

What has your enterprise software done to help prepare your company for a digital transformation?

For which of the following technologies do you have funded projects in place?
Do you expect your company’s budget for digital transformation-enabling technologies to increase, decrease or stay the same over the next two years?

How well does your enterprise software prepare you for digital transformation?
Your company is most closely aligned with which of the following industry segments:

- Food & Beverage
- HVAC
- Metal Fabrication
- Medical
- Capital Equipment
- Aerospace/Aviation
- Oil & Gas
- Other

Your company’s estimated annual revenue is:

- $100-$250M
- $50-$100M
- $250-$500M
- $500M-$1B
- $1-$5B
- Over $5B
- Less Than $50M
IFS develops and delivers enterprise software for customers around the world who manufacture and distribute goods, maintain assets, and manage service-focused operations. The industry expertise of our people and solutions, together with commitment to our customers, has made us a recognized leader and the most recommended supplier in our sector. Our team of 3,500 employees supports more than 10,000 customers worldwide from a network of local offices and through our growing ecosystem of partners.

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