



# 2017 UK Digital Transformation Report

How are UK businesses getting on with digital transformation?

(Businesses of 1-1,000 employees)

# INTRODUCTION FROM NATHAN MARKE

## UK business has “woken up” to digital transformation

### Welcome to the UK Digital Transformation Report – 2017 Edition.

For the second consecutive year, Daisy Group has polled UK businesses (1-1,000 employees) to find out how they are getting on with digital transformation. I’m delighted to present a very positive set of findings to you in this executive summary.

UK productivity continues to lag behind other modern economies at a critical point in our history as we prepare for life outside of the European Union. I have a passionate belief that digital transformation can turn our nation’s legendary creativity and resourcefulness into productivity gains that can underpin the success of the newly independent UK.

For our nation to flourish in the twenty-first century, digital transformation needs to infect not only our giants, but also our SMBs - the butchers, bakers and candlestick makers, start-ups and scale-ups that are the engine room of our economy.

Of course, as consumers digitisation has touched every part of our lives, impacting how we live, how we learn and how we play. For businesses, our survey shows that the digital transformation opportunity is evolving and broadening in a similar way. Where in the past, digital was seen as a way of improving the customer experience, it is now increasingly recognised as a whole business opportunity. I’m particularly excited to see newer technologies such as the Internet of Things (IoT), artificial intelligence (AI) and robotics making their way onto the digital agenda, helping businesses to gain competitive advantage from their data.

It is clear that challenges remain; lack of resources, legacy technology and skills gaps hinder too many smaller businesses and public sector organisations, in particular, from embracing technology-led change. However, businesses seem to be getting on with the job in spite of these limitations.

At Daisy, we are passionate about helping companies wherever they are on their digital transformation journey to maximise the opportunities we know exist in every sector.

As a technology leader, it’s our responsibility along with our vendor and partner community to help our customers navigate a course to digital success.

I’d like to thank everyone who generously took the time to take part in the survey. We hope you find plenty of food for thought – and action – in the report, as well as in all our work on [daisygroupp.com](http://daisygroupp.com).

**Nathan Marke**  
Chief Digital Officer, Daisy Group



### What is digital transformation?

For the purpose of this report, digital transformation is defined as the use of digital technologies, such as cloud computing, mobile, big data/analytics and the Internet of Things (IoT), to enhance existing services or create new ones.

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In this report, we summarise the experiences of business professionals from 2,000 UK organisations, across a number of different industries, which employ less than 1,000 employees.

- 84% of respondents were either a middle or senior manager, director or business owner
- 92% of respondents were a decision maker at their respective business

## Featured in this report:

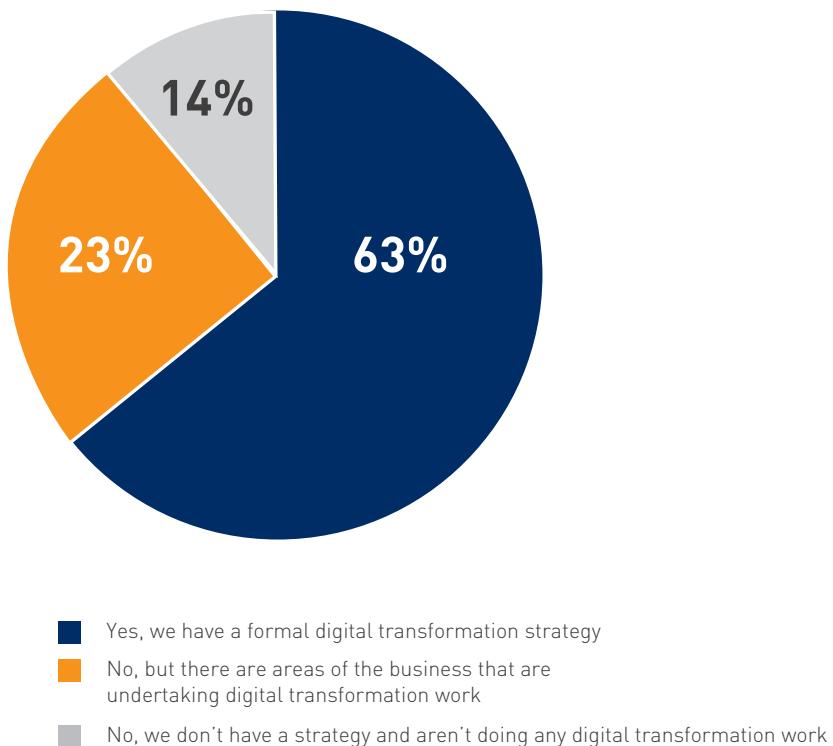
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## Q1. How many businesses have a formal digital transformation strategy?

The results show that almost two thirds (63%) of UK businesses today have a digital transformation strategy, while 23% are undertaking digital transformation work despite not having a formal plan. This is a significant increase when compared to the 2016 results.

### Key 2016 Results

- **27%** had a formal digital transformation strategy
- **56%** were undertaking digital transformation work without a strategy
- **17%** didn't have a strategy and weren't doing any digital transformation work



### What does this mean?

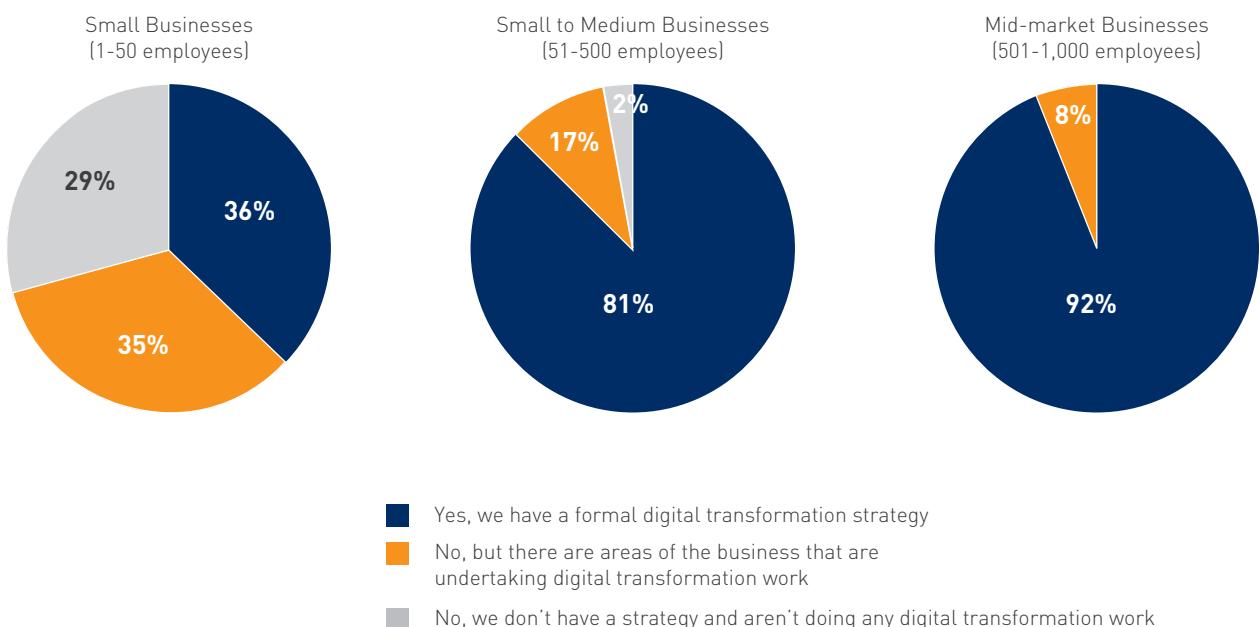
Digital transformation is relevant to every business of every size, from the smallest coffee shop to the largest multinational. More than double the number of UK businesses have realised the need for an active formal digital strategy that allows them to accelerate activities to fully take advantage of digital technologies. While strategies do take time to implement, those that have one or are about to create one will really start to see the benefits and opportunities digital enables in the future.

## Q1 cont. How many businesses have a formal digital transformation strategy? – [By business size]

The results indicate that only 36% of small businesses (up to 50 employees) have a digital transformation strategy. Larger competitors are ahead in this regard with 81% of small to medium-sized businesses (50-500 employees) saying they now have a strategy, and mid-market businesses (501-1,000 employees), that are likely to have a dedicated IT function, are now at 91%.

### Key 2016 Results

- **36%** of small businesses had a strategy
- **41%** of mid-market businesses had a strategy

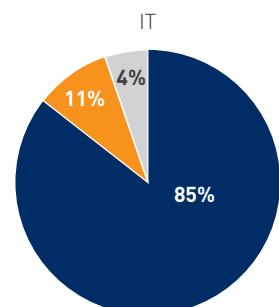


### What does this mean?

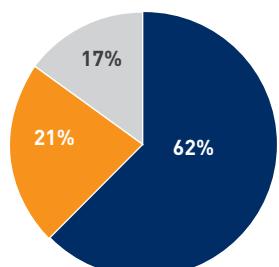
Digital technologies can create a significant business advantage and it's essential for a modern company to make the time to plan for the exploitation of them, alongside the usual day-to-day demands of running a business. However, the results show that small businesses are still finding it challenging to either find the time to create a formal digital strategy or find the required resource to implement one. Technology professionals in the IT and telecoms channel need to recognise the challenges and provide smaller firms with the support they need.

## Q1 cont. How many businesses have a formal digital transformation strategy? – [By industry]

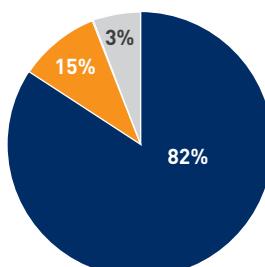
The results indicate that unsurprisingly the IT industry (85%) leads the way in terms of having a digital transformation strategy while the financial services sector is a close second (83%). The retail sector remains low in terms of having a formal strategy (56%), despite the figure increasing from 27% when the same survey was conducted last year. Public sector organisations remain the furthest behind with less than half (47%) having a digital transformation strategy.



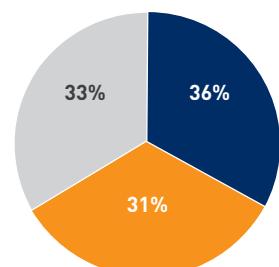
Business and Professional Services



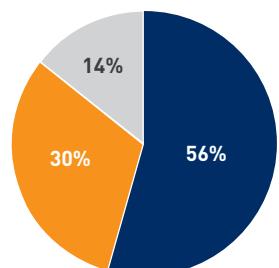
Financial Services



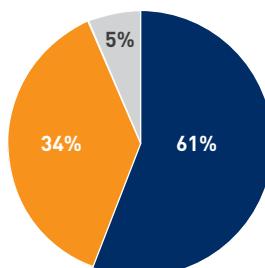
Other Commercial sector



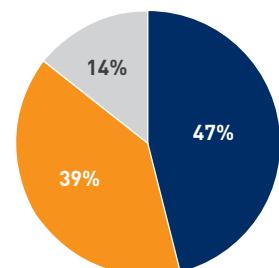
Retail



Manufacturing



Public Sector



■ Yes, we have a formal digital transformation strategy

■ No, but there are areas of the business that are undertaking digital transformation work

■ No, we don't have a strategy and aren't doing any digital transformation work

### What does this mean?

It is unsurprising to see financial companies stand head and shoulders above the average (63%) given the significant amount of aggressive and continuing disruption from challenger banks, fintech companies and those not shackled by regulation in the same way that traditional banks are. Changing consumer behaviours and the need for the sector to embrace customer-centric strategies are also likely to have had an impact.

In the retail sector, there appears to be a digital divide on the high street. While many premium retailers are investing in tools like proximity marketing, virtual reality and queue busting point-of-sale (POS) technology, others are falling behind. This is surprising given the very visible and dramatic impact that digital disruptors such as Amazon have had on all parts of the sector.

The results show that the public sector remains the lowest. While disappointing, this is perhaps expected given the nature of the sector and the evolving and shifting political landscape.

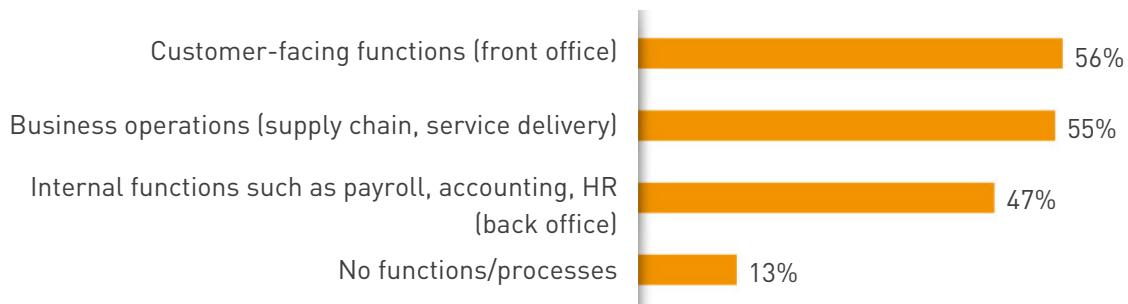
## Q2. In which functions/processes of a business is there a drive to digitally transform?

The overall results from this year's survey indicate that more than half of businesses (56%) are focussing on digitally transforming their customer-facing functions, which is a significant increase from last year. Business operations – supply chain and service delivery (55%) - and internal functions, such as payroll, accounting and HR (47%), are areas of focus too.

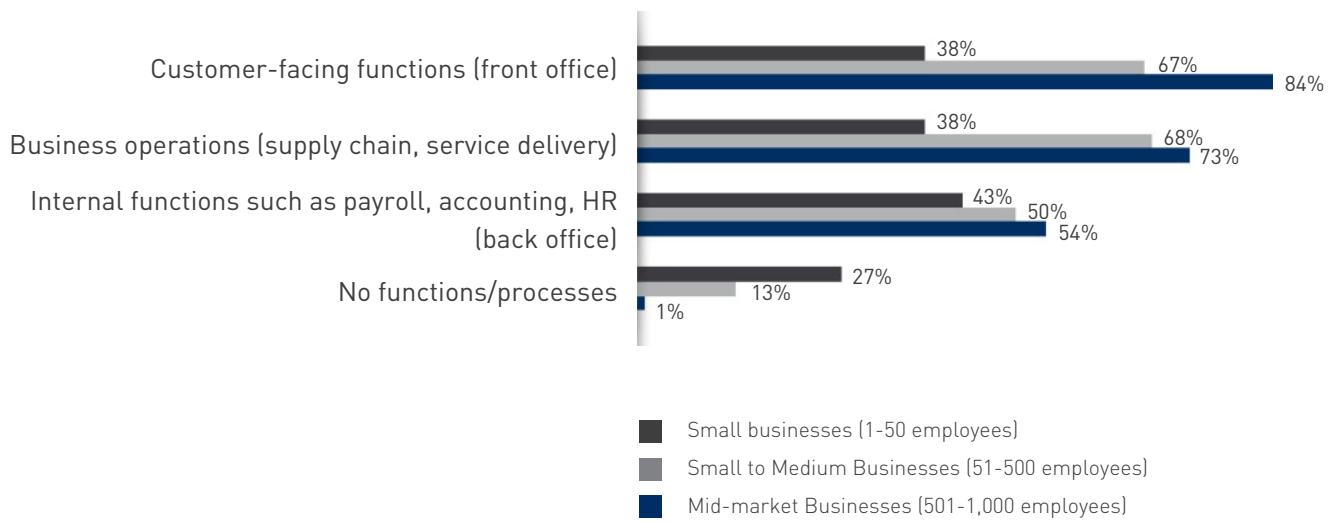
### Key 2016 Results

- 31% were focussed on internal functions (back office)
- 17% were focussed on customer-facing functions

Functions/processes that are being digitally transformed



Functions/processes that are being digitally transformed  
[By business size]



## What does this mean?

When compared to the 2016 results, this year's data shows that businesses of all sizes are starting to use digital in all areas – both internally and externally – to transform existing functions. Organisations are no longer just viewing digital transformation as something consigned to customer-facing processes, they are viewing it as something that will affect every part of a business. Naturally, the IT (74%) and financial service (61%) sectors are very focussed on improving customer functions; firms in the manufacturing sector are concentrating on business operations (71%); and public sector organisations are prioritising the back office (59%).

## Q3. What are the main drivers for digital transformation?

The overall results from this year's survey indicate that more than two thirds (69%) of UK businesses still rate achieving greater efficiency and cost savings as the main driver for digital transformation, while improving customer service (51%) has grown in importance over the past 12 months. Technology innovation as a driver has dropped by 30% since the 2016 survey was undertaken, perhaps because this year the question was more specifically focussed on its application to existing processes and services.

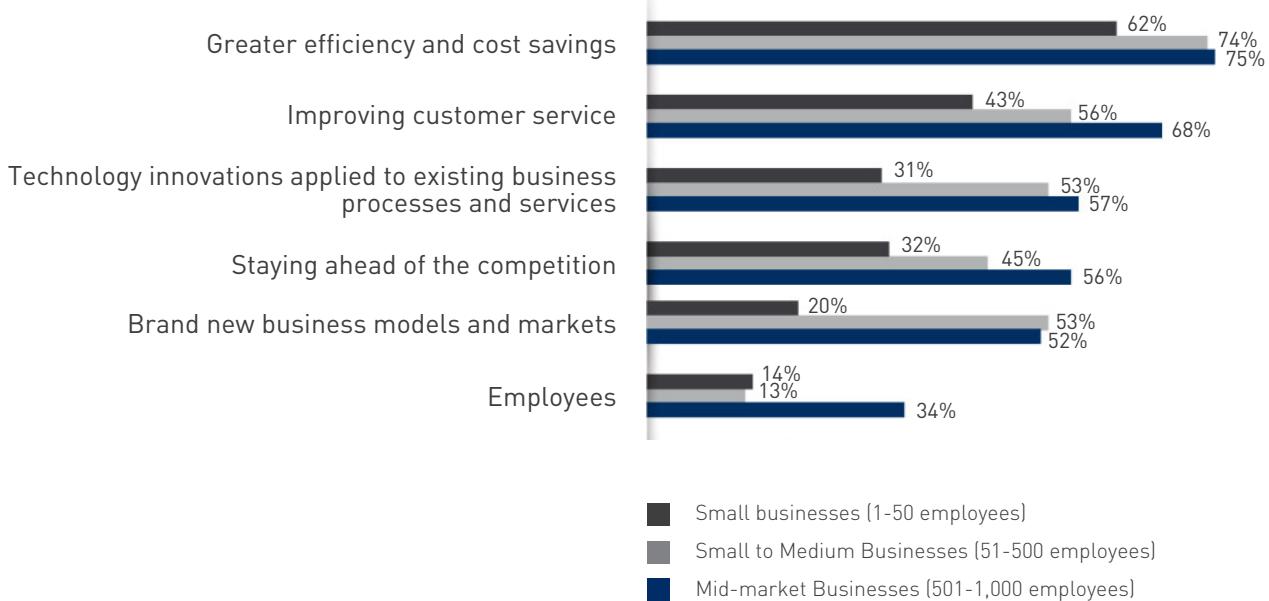
### Key 2016 Results

- **67%** wanted greater efficiency and cost savings
- **65%** wanted to innovate technologically
- **44%** wanted improved customer service

### Drivers for digital transformation



## Drivers for digital transformation (By business size)



### What does this mean?

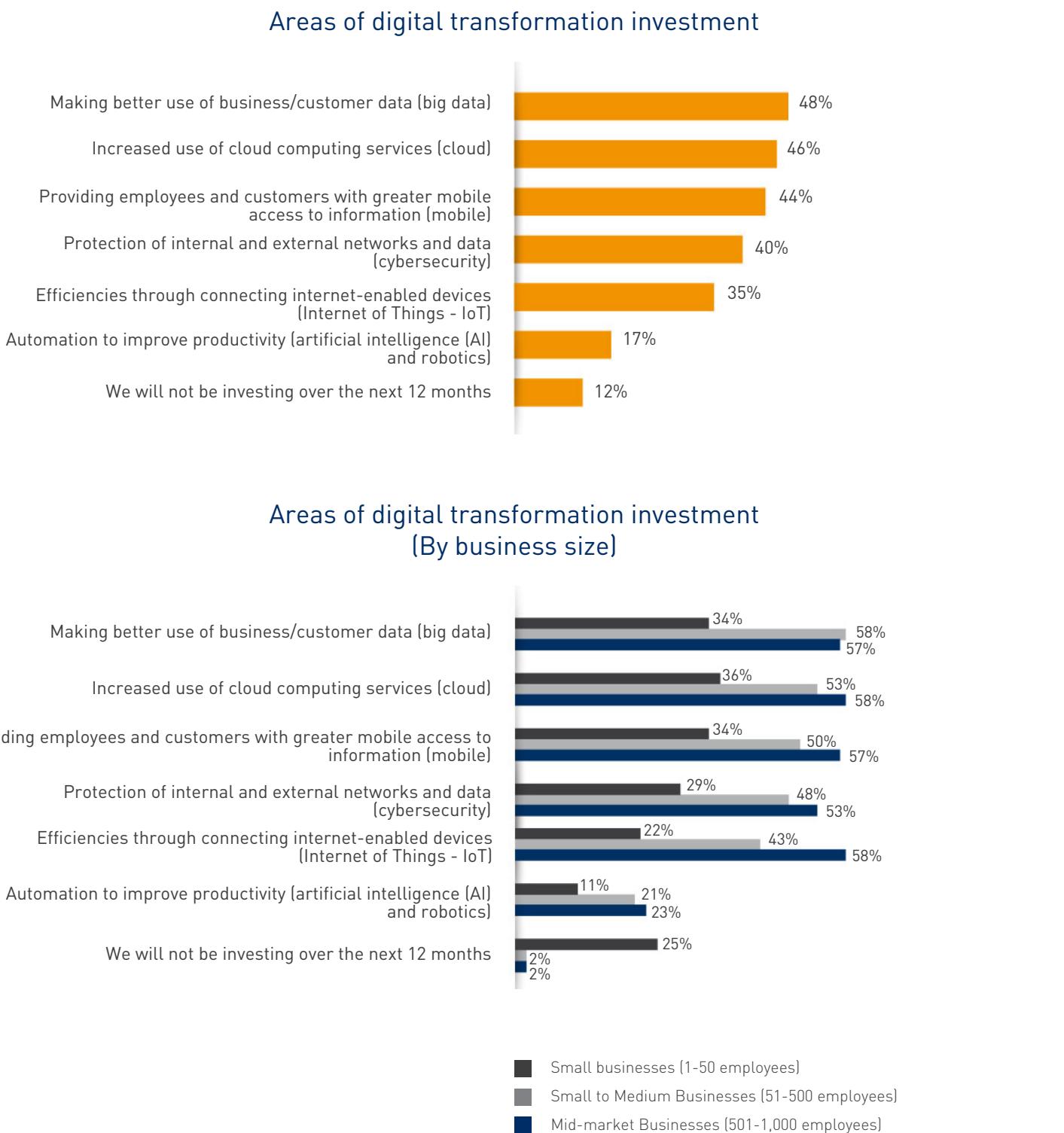
It is no surprise to see that businesses are still viewing digital transformation as an opportunity to achieve greater efficiency and make cost savings. The results seem to suggest that organisations across all sectors are adopting digital technologies but are playing it safe when it comes to utilising them across all areas. Education is required to show businesses the value of adopting digital to drive brand new business models and markets. The macroeconomic environment and uncertainty surrounding Brexit are likely to have focussed business attention towards cost and less on technological innovation.

## Q4. On which aspects of digital transformation is investment being focussed over the next 12 months?

The overall results from this year's survey show that nearly half of UK businesses (48%) are looking to invest in digital technologies that help them make better use of business and/or customer data (big data). Increased use of cloud computing services (46%) also appears to once again be a key theme over the next 12 months as well as providing employees and customers with greater access to information (44%).

### Key 2016 Results

- **53%** were investing in cloud computing services
- **56%** were investing in providing employees and customers with greater mobile access to information



- Small businesses (1-50 employees)
- Small to Medium Businesses (51-500 employees)
- Mid-market Businesses (501-1,000 employees)

## What does this mean?

The data shows that businesses are continuing to focus on the management of their data, which is probably a result of the impending General Data Protection Regulation (GDPR); ensuring staff have greater mobility; and leveraging cloud-based technologies. Unsurprisingly, given the major cybersecurity breaches in the past 12 months, security has moved its way up the digital agenda (40%).

Big data and the use of analytics is still prominent in sectors such as financial services (65%), followed by the IT industry (54%) and retail (50%). Interestingly, automation through connecting internet-enabled devices (Internet of Things - IoT) has increased from last year, growing from 21% to 35%; artificial intelligence (AI) and robotics is also growing as an investment priority, particularly in the manufacturing sector (32%).

Also noticeable is the clear correlation between businesses that are advanced with their digital journeys and investment in transformational technologies such as the Internet of Things and artificial intelligence – opportunities that can really disrupt and drive growth.

## Q5. What are the barriers/challenges preventing businesses from achieving their digital transformation goals?

The overall results from this year's survey reveal that a lack of time or resource to implement (38%) is still the main challenge UK businesses are facing in order to achieve their digital transformation goals. A third (32%) also listed a lack of skills and knowledge internally as a barrier and 30% listed a lack of investment as the key challenge they face.

### Key 2016 Results

- **53%** rated lack of time and resource to implement as a barrier
- **39%** rated lack of direction/strategy from the business as a barrier
- **36%** rated lack of skills and knowledge internally as a barrier

### Barriers to digital transformation



## Barriers to digital transformation (By business size)



### What does this mean?

In the 2016 survey, more than half of UK businesses (53%) cited lack of time and resource to implement as a major challenge and 36% stated lack of skills and knowledge internally was a barrier. The drop in this year's results seems to suggest that despite those challenges still being prevalent, businesses today are finding ways of breaking down barriers in order to start their digital transformation efforts. Internal resources, skills gaps and legacy technology still seem to be key barriers, but it appears people are creating more time to focus on digital as an enabler.

The lack of time and resource appears to be a trend across all the sectors featured in this report, with the IT sector particularly struggling – 70% admitted it was a challenge. The challenge of attracting talent with digital transformation skills can be seen in both the private and public sectors, but given its prevalence in the latter, it's perhaps not surprising that it ranks high (41%) as a barrier, while lack of investment is also at 43%.

## SUMMARY OF KEY FINDINGS

### More than half of businesses now have a formal digital transformation strategy

- The number of businesses with a formal digital transformation strategy has more than doubled over the past 12 months
- More than half (63%) of UK businesses now have a formal digital transformation strategy, up from a quarter (27%) when the survey was conducted in 2016

### Small businesses lag behind larger competitors with digital transformation

- Small businesses (up to 50 employees) are still behind larger competitors in digital transformation, with 64% revealing that they don't have a formal strategy
- 81% of small to medium-sized businesses (51-500 employees) have a digital strategy, a 56% increase from 2016
- 92% of mid-market businesses (501-1,000 employees) have a digital strategy, a 36% increase from 2016

### Businesses in the IT and financial services sectors lead the way while the public sector is lingering behind

- Companies in the IT (85%) and financial services (82%) sectors lead the way in digital transformation
- Just over half of retail businesses (56%) have a formal plan in place
- 53% of public sector organisations are yet to put in place a digital transformation strategy

### Businesses are starting to use digital in all areas to transform existing functions

- Digitally transforming customer-facing functions (front office) remains the priority (56%)
- Followed by improving business operations – supply chain and service delivery (55%)

### As with last year, the pursuit of cost savings and efficiencies remains the biggest driver for digital transformation (69%)

- Followed by improving customer service (51%) and staying ahead of the competition (40%)
- Almost one third of businesses (30%) are now using digital technology to create new business models

## Businesses are focusing digital investment on big data over the next 12 months

- Almost half (48%) of UK businesses stated that investment on digital transformation will be focussed on making better use of business and/or customer data (big data)
- Other areas of investment include increased utilisation of cloud computing (46%) and providing greater mobile access to employees and customers (44%)
- More than a third (35%) of UK businesses are using the Internet of Things (IoT) to increase efficiencies, up from 21% when the survey was conducted in 2016
- Using artificial intelligence (AI) and robotics to drive automation and increase productivity is a new investment focus (17%) for businesses

## Lack of time and resource to implement digital strategies remains the biggest barrier to successful implementation (38%)

- Followed by lack of internal skills and knowledge (32%), lack of investment (30%) and legacy technology (29%)

## ABOUT DAISY GROUP

We are the UK's largest independent provider of business communications, IT and cloud services helping 600,000 UK businesses build the digital foundations they need to thrive in the digital economy.

By joining the dots between old and new technology – and across the converging worlds of IT, telecoms and cloud – we help to make underlying infrastructure simple, secure, reliable and invisible.

We provide services to half of the country's high street retailers and are at the technological heart of the nation's critical infrastructure. We help keep trains running and planes flying. We support doctors in the care of their patients. And we connect businesses of every kind to the customers they serve.

Learn more at [www.daisygroup.com](http://www.daisygroup.com)



Security



Supply Chain Services



Business Continuity



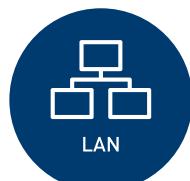
Cloud and Hosting



Connectivity



Contact Centres



LAN



Lines &amp; Calls



Managed Services



Mobile



UC&amp;C



WiFi

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