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HARNESS DIGITAL DISRUPTION:

THE NEW BUSINESS IMPERATIVE

Advancing Reputation, Driving Better Business
Outcomes, and Staying Ahead of Competition
Through Digital Transformation
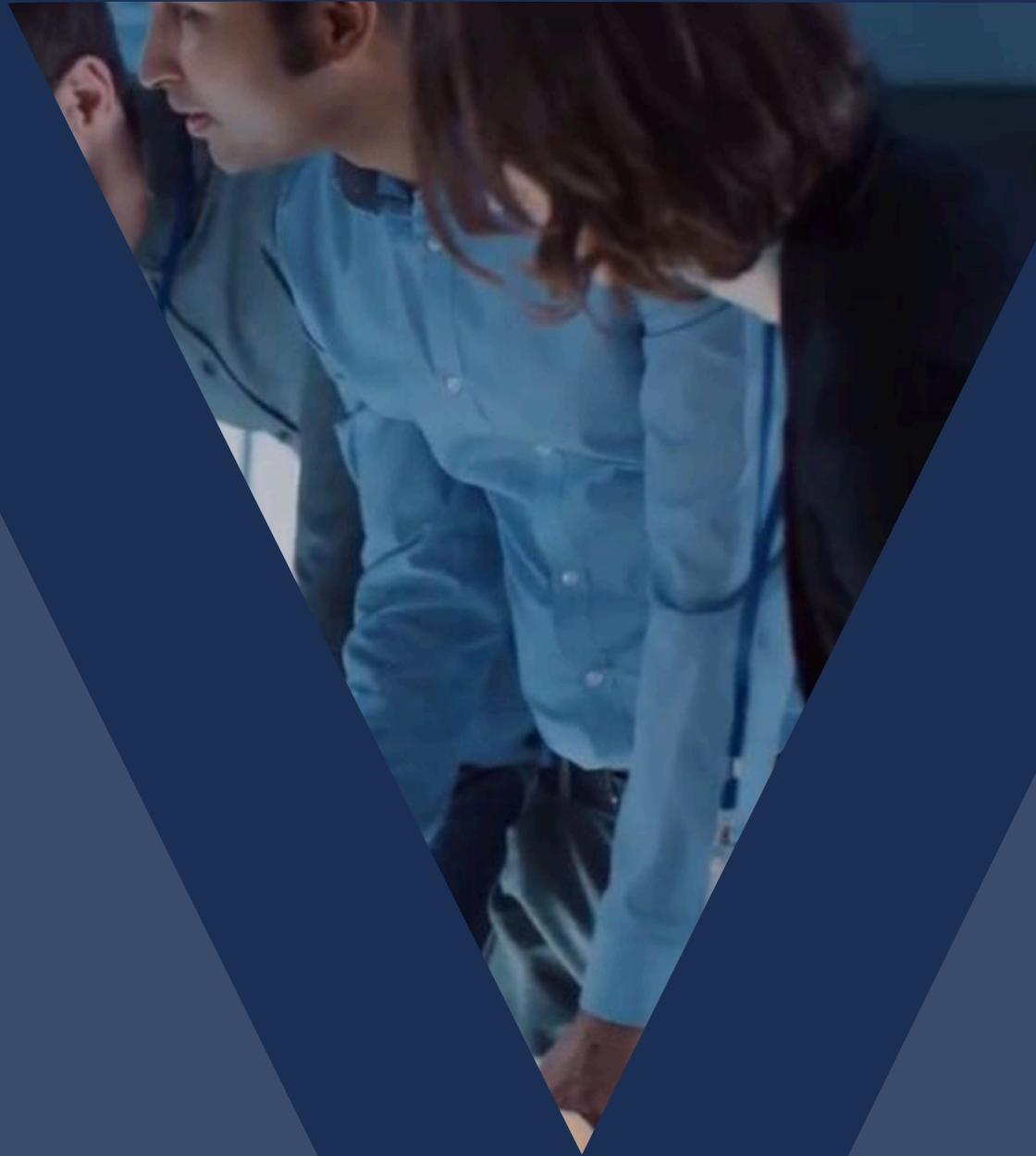
TABLE OF
CONTENTS

TABLE OF CONTENTS

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

Leaders across regulated industries are under pressure to streamline operations and deliver new, sustainable, and innovative offerings to advance their brand's reputation, drive better business outcomes, and stay ahead of competition. This pressure is coming from a myriad of interacting internal challenges and external forces that make the current state untenable, driving the new business imperative.

Internally, digitalization and cloud adoption are difficult because they entail culture change and must not compromise cyber security. Workforce resignations and reshuffling mean increased pressure to ensure employees are efficient and engaged.

Externally, suppliers, regulators, and consumers are pressing on companies from all directions. Suppliers cannot always meet demand, have increased their prices, and have mixed ability to meet companies' needs for sustainable supplies and transparency. Regulators and consumers are demanding increased sustainability practices and transparency. Consumers balk at increased prices, while expecting products and experiences tailored to their changing behaviors.

Companies must ensure they are prepared to weather the risks and disruptions that stem from these complex internal and external factors. Change is needed not just to avoid the negative, but also to grasp the positive. Seizing the opportunities digital transformation presents means companies will outpace disruptions, drive business outcomes, and strengthen relationships. The ideal future state is characterized by agility, efficiency, and innovation, driven by people and data, and enabled by technology.

Companies must develop a vision of the transformed future tailored to their organization, so they can map a route to that future, based on an understanding of where they are today. The first steps along the route should be discrete, rapid, pilot projects. Experts recommend that these projects be chosen based on each project's ability to measure success, alignment with vision, and value.

Once value has been proven through targeted pilot projects, companies can expand the initiative. Typically, the path to the future begins with initiatives that enable the company to work more efficiently. The longer term may entail radical change as companies transform their entire business to unlock the power and potential of data.
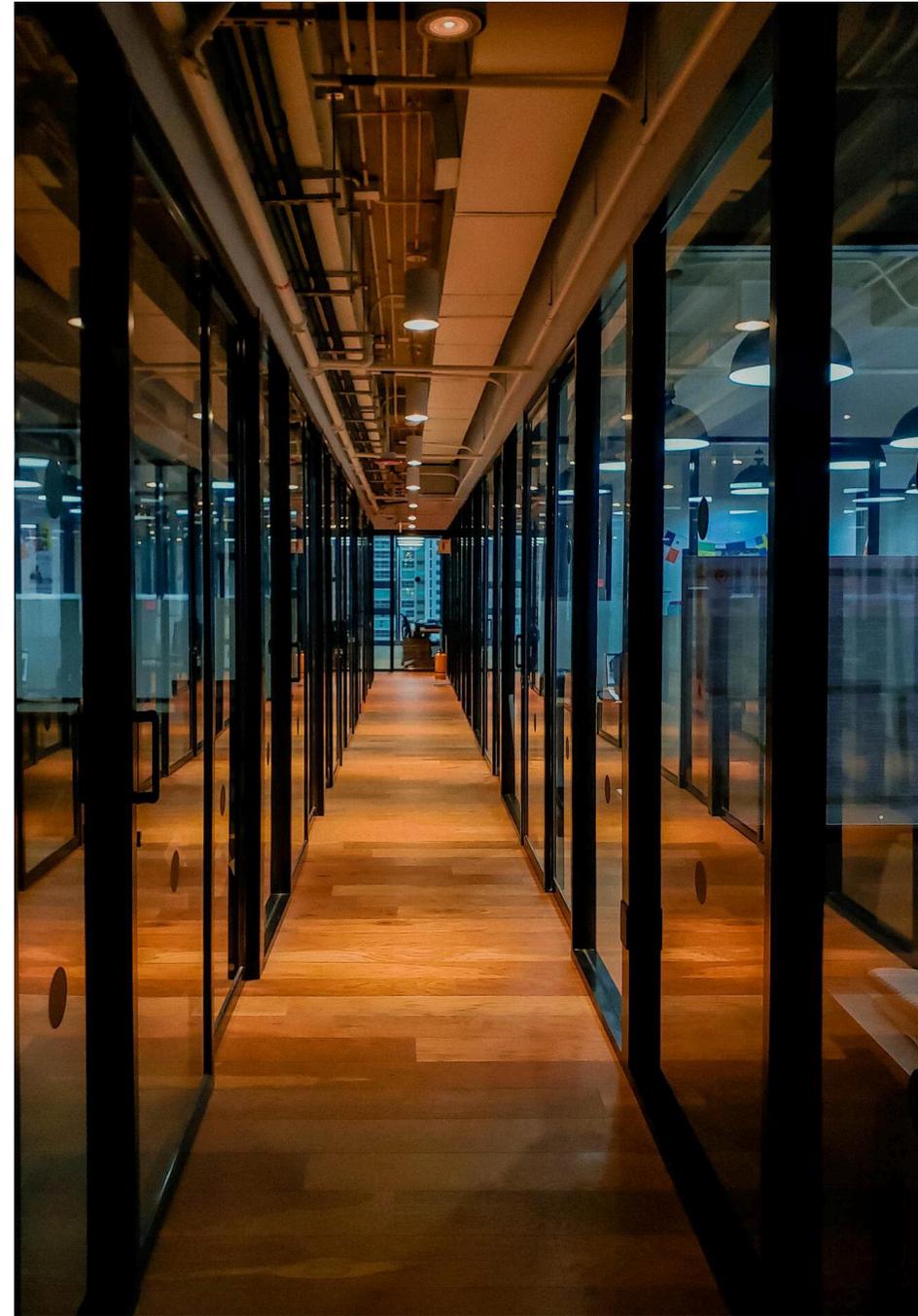
INTERNAL TRENDS & CHALLENGES

INTERNAL TRENDS & CHALLENGES

There are numerous trends and challenges driving the new business imperative. Factors within organizations that both necessitate and complicate the process of digital transformation include:

DIGITIZATION OF BUSINESS
Companies are modernizing front and back-end operations to support growth.

CLOUD ADOPTION
Cloud is a critical enabler of business transformation.

CYBER SECURITY
Security must be baked-in to digital transformation plans for success.

WORKFORCE TRENDS
Resignations, reshuffling, and the expectations of younger, digitally-native employees are drastically altering the workforce.

DIGITIZATION OF BUSINESS

**Modernizing Front and Back-End Operations
to Support Growth**

The move to modernize and digitize business operations is hardly new. More than a decade ago, companies looked to update customer- facing applications to grab the lowest hanging fruit on the digital transformation tree. While this approach may have resulted in early wins with customers, it left functions like quality, regulatory, and safety – once considered back-office functions – behind. Now, these internal business functions are deeply connected to C-suite and boardroom priorities.

The quality, regulatory, and safety functions are not only organizational table stakes—they're core to protecting brand equity, maintaining consumer trust, differentiating, and driving growth in highly competitive markets. The piecemeal approach to digitizing these internal functional areas, which treats them as an afterthought to customer-facing operations, is clearly no longer going to work.

Internal business functions are deeply connected to C-suite and boardroom priorities.

Companies must modernize systems to meet stakeholder expectations, respond to external forces, and alleviate internal pressures.

In 2020, the problem with these functions continuing to rely on outdated tools and systems to execute critical work became instantly obvious. The COVID-19 pandemic quickly exposed all the weaknesses of managing business-critical functions using on- premises and aging technology systems that had been building under the surface for years. Given the reality of a near-overnight shift to remote work, companies had to quickly find ways for a newly home-based, distributed workforce to access data and processes based on paper, email, spreadsheets, and employees' individual knowledge in order to survive.

This led many organizations to accelerate their transformation efforts and, in some cases, as a recent Deloitte article indicates, "mak[e] years of progress in a matter of months."[1] And despite the financial hardships many businesses suffered during the pandemic, investment in digitization efforts continues to increase at a 15.5% compound annual growth rate from 2020 through 2023, with total investment over that period reaching US$6.8 trillion.[2]

Of course, digitizing is more complicated than modernizing customer-facing and internal systems alone.

Companies must look holistically at all systems including those stemming from acquisitions, to avoid a redundant or siloed mix of legacy and new technology. As Venkat Venkatraman, Professor of Management at Boston University Questrom School of Business noted, successful companies approach digital transformation "as an enterprise-wide business activity rather than a set of functional-level technology projects."[3] Understanding digital transformation as central to all companies' strategies will be critical to success moving forward.
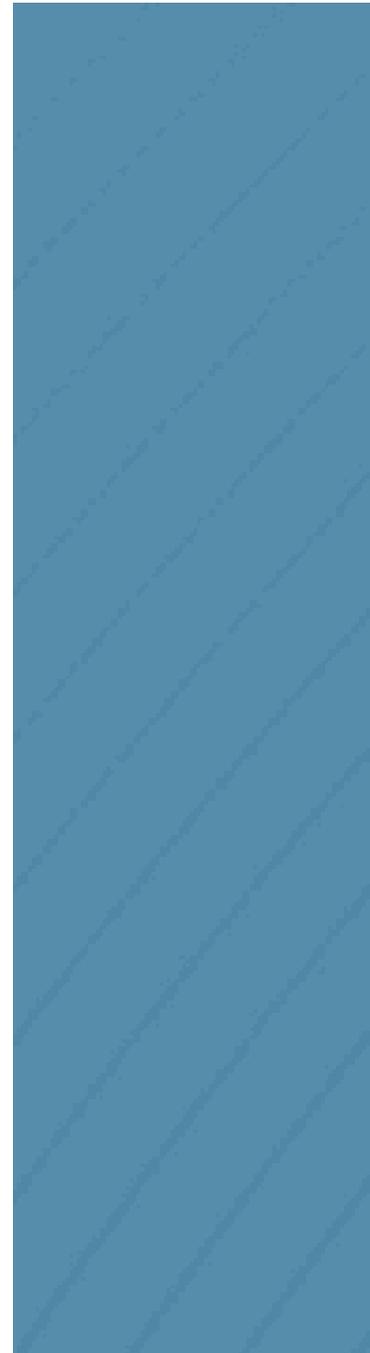
" Digital agility is essential to successful transformation, allowing organizations to drive innovation at scale, deliver new initiatives faster and create the experiences that customers want."

Kurt Anderson, Managing Director & API Transformation Leader Deloitte Consulting [4]

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" We call for a shift in executive mindset to project the future of the business with digital at the core. That is, to systematically deploy cloud and digital technologies to maximize growth in ways that put solving customer problems first and keep the business resilient from end to end…"

Venkat Venkatraman, Professor of Management Boston University Questrom School of Business

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CLOUD ADOPTION

Cloud is a Critical Enabler of Business Transformation

Prior to the pandemic, companies across all industries were making or accelerating the move to the cloud as they embraced digital transformation. The pandemic played a role in further pushing companies to embrace the cloud. In 2021, Gartner estimated cloud services jumped by 23% and will again increase in 2022 by 16%.[5] By 2025, over half of enterprise IT spending in categories that can transition to the cloud will transition to the cloud, compared to 41% in 2022. "Almost two-thirds (65.9%) of spending on application software will be directed toward cloud technologies in 2025, up from 57.7% in 2022."[6]

Companies that failed to embrace cloud, found themselves behind their competition because they could not act as quickly. 65.9% According to Forbes, "The future belongs to the fast, and those who act fastest on their data will win." [7]

Some companies remain reluctant to move processes, documents, and data to the cloud from on-premises solutions noting concerns about security risks. But in practice, the real challenge is more often about comfort with the status quo, reliance on "tribal knowledge," and fear of professional obsolescence than security. In other words, culture change is required.

65.9%

of spending on application software will be dedicated toward cloud technologies in 2025.

The need to act quickly is especially true for companies operating in consumer goods industries. The pandemic forced consumers to adopt new behaviors in buying and consuming goods and services. Many switched brands and formed new tastes and preferences. Companies that were digitally prepared were best suited to make the adjustments needed to capitalize on these shifts.

People who have been buried in companies forever... don't want to let go of their vine... You have to give them another vine to grab, which means [companies must tell their staff that] not only is it safer and more secure to go to the cloud and cheaper to go to the cloud, if you do it right, but 'we're going to train you and you're going to learn new things and be more valuable, in general, in the market if you get on board and move this direction."

Jeffrey Schaubschlager, Principal Consultant 3pointsDIGITAL

CYBERSECURITY

Security must be Baked-In to Digital Transformation Plans for Success

Cyber-attacks and the cost to combat them are increasing due in part to remote/hybrid work, bring-your-own-device programs, IoT devices, and other trends which create vulnerability and increase the avenues for attack.

Supply chain cyber-attacks, in particular, are on the rise which is problematic for systems already stretched thin from pandemic-related challenges. When a single supplier is attacked it is enough to bring down a whole network of providers. Attackers have found that a company's vulnerability lies with its suppliers, who may not be transparent about security breaches. Companies must, as a result, ensure suppliers' cybersecurity is up to par.[8]

Security breaches and cyber-attacks also play a role in the hesitation to migrate to the cloud.

WORKFORCE TRENDS

Resignations and Reshuffling Drastically Alter the Workforce

The COVID pandemic has altered the labor market with increased unemployment rates and job vacancies across every industry.[9] A record number of US workers quit their jobs in 2021, 47.4 million.[10] "Waves of employee resignation have hit the United Kingdom and European Union just as hard as U.S."[11] Globally, over 40 percent of the workforce is considering leaving their employer in 2022.[12]

Corporate employees are job-hopping in "the Great Re-Shuffle," while service, manufacturing, shipping, and front-line workers are leaving the workforce or moving toward corporate positions in "the Great Resignation." Workers are quitting their jobs due to "poor working conditions" and "existential epiphanies" among a variety of reasons.[13] This massive shift is putting tremendous pressure on organizations to rethink the way they engage employees to retain the valuable talent they already have and attract prospects now available in droves.
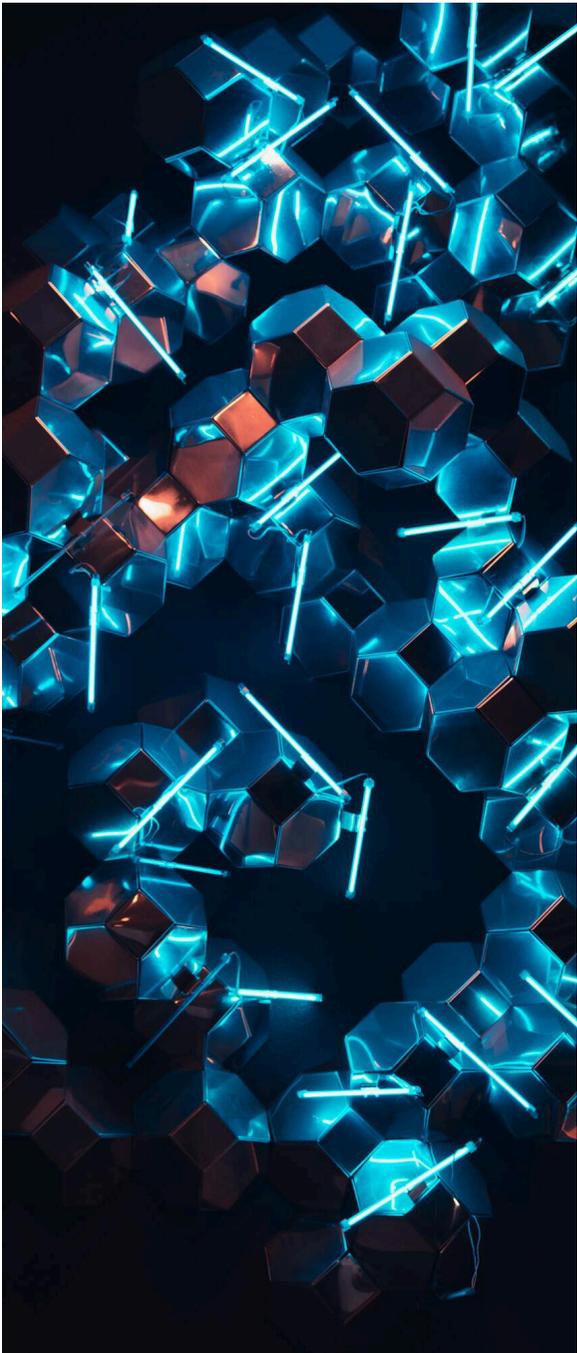
THE GREAT RESIGNATION

Service, manufacturing, shipping, and blue-collar jobs have been hit harder than corporate jobs because they are riskier and less flexible. Because these jobs cannot be done from home, some workers contracted COVID at work – or weren't willing to take the risk that they would. Others needed flexibility to care for their children or other dependents, also contributing to the mass exodus. The labor shortage has hit manufacturing particularly hard as wages have fallen below average, especially in nondurable manufacturing, such as food & beverage.[14] Blue-collar workers "clocked hours in person — putting themselves and their loved ones at risk — while they watched their white-collar counterparts migrate to comfortable and safe remote setups, with their jobs and pay protected."[15]

THE GREAT RE-SHUFFLE

For corporate workers, the pandemic ushered in what was thought to be a temporary state of remote work. This shift has since changed the nature of white-collar work and the way companies seek corporate employees. Remote work has allowed companies to broaden their talent pool beyond their own location as they adopt policies like 'work from anywhere' and focus on facilitating productivity regardless of location.[16]

Resignations pose an enduring challenge. Broadly, workers are more likely to seek opportunities at companies that empower employees with the use of modern tools and technologies that allow them to be productive, and thus engaged and satisfied.

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There are likely two broad categories of people participating in the Great Resignation: "One is people who are professionals, who are making a choice between 'good' and 'better'. The other category is people who are making a choice between something that is really terrible, unhealthy and toxic, and survival. Those are two very different dynamics."

Martha Maznevski, Professor of Organizational Behavior Western University, Ontario

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The labor shortage is causing "a total rethink of how to incentivize employees and how to retain existing employees... We've seen a very rapid spike in the kinds of keywords in job postings that indicate that companies are prepared to offer very attractive incentives and much more flexibility."

Julia Pollak, Chief Economist, ZipRecruiter[17]

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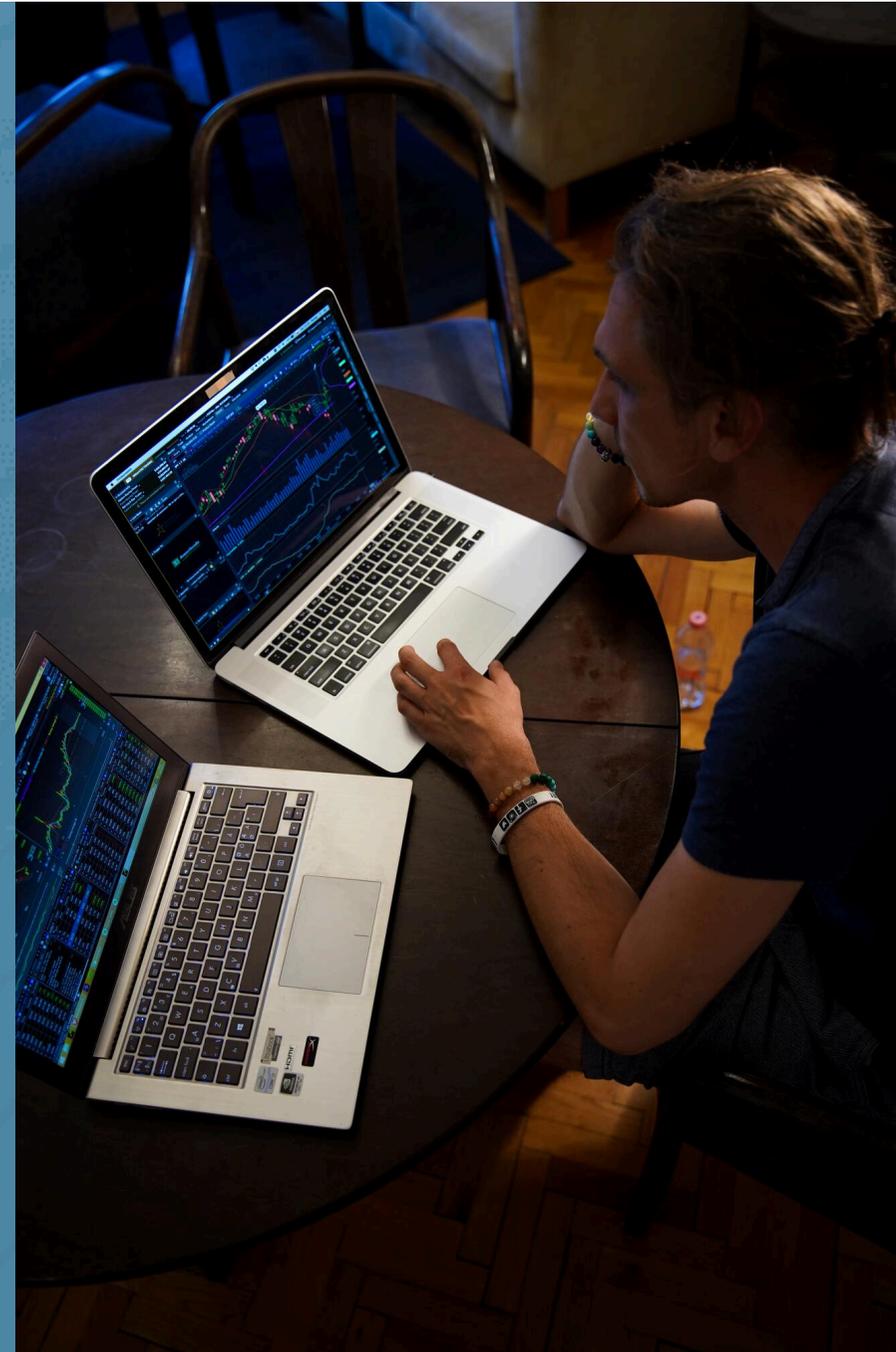
INTERNAL TRENDS & CHALLENGES

Business is digitizing. Companies are modernizing front and back-end operations, taking a holistic approach to systems and transformation. They are doing this to support growth, meet stakeholder expectations, respond to external forces, and alleviate internal pressures.

Companies are increasingly adopting cloud, which is a critical enabler of business transformation. To do so, requires culture change to overcome comfort with the status quo, reliance on "tribal knowledge," and fear of professional obsolescence.

Cloud solutions address cyber security concerns. Cyber-attacks are accelerating across supply chains. Security must be baked-in to digital transformation plans for success.

Worker resignations in service, manufacturing, shipping, and front-line jobs, along with reshuffling in corporate jobs, are drastically altering the workforce. This is putting pressure on organizations to rethink the way they engage employees. Empowering employees with modern systems that enhance productivity increase employee satisfaction.

EXTERNAL TRENDS & CHALLENGES

EXTERNAL TRENDS & CHALLENGES

External factors and developments also impact companies on their path to digital transformation, even as individual companies have little or no ability to influence them. These trends and challenges, which are critical for leaders to anticipate impacting their plans, include:

SUSTAINABILITY
Pressure is mounting for transparency about sustainability across the product lifecycle.

INFLATION
Price increases and volatility challenge companies' ability to delight customers and can hamper profitability.

CONSUMER BEHAVIOR AND EXPECTATIONS
As behaviors and expectations change, companies must continually update their understanding of consumers.

REGULATORY PRESSURE
Increasing complexity of regulations – especially around compliance – makes compliance increasingly challenging.

SUPPLY CHAIN ISSUES
A perfect storm of intersecting factors meant massive supply chain disruptions.

SUSTAINABILITY

**Mounting Pressure For Transparency
Challenges Companies**

There is more pressure than ever for companies to implement and expand sustainability measures like reducing emissions, waste, pollution, and toxicity, while concurrently decreasing impacts on land, water, biodiversity, and the atmosphere. Pressure from consumers, investors, and communities is mounting while regulations are requiring increased disclosure. Companies across industries are feeling this pressure, but it is most intense for consumer goods companies and their suppliers. In a global survey conducted by Deloitte across industries, 75% of executives feel a large or moderate amount pressure from consumers/client to act on climate change and 77% feel pressure from regulators/government.[18]

Companies are reacting by announcing new voluntary initiatives and complying with disclosure requirements. But this is a huge challenge for many organizations. Transparency around sustainability claims requires businesses to have insight not only into every corner of their own organization, but their entire product lifecycle including other members of their supply chains. Stakeholders expect transparency and they will hold companies accountable. Companies that cannot provide evidence of their sustainability achievements risk loss of sales and investments.[19]

> **Consumers... increasingly want to purchase products they view as sustainable across the entire value chain... They also want to believe that their consumption habits won't negatively affect the environment."**

Veronica Poole Deloitte[20]

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> **The gap between consumer intent and action is closing rapidly... 49% of global consumers consider sustainability when choosing food and beverages."**

Kerry[21]

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> **Most of the chemical companies already have a target of being zero emission, carbon net neutral, by certain timeframes. Now throw in COVID... all that kind of goes out of the window...This is the most difficult area to drive or get results, trying to match up with profitability."**

Vinod Galani, Digital Transformation Strategist JP Morgan

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INFLATION

Price Increases Challenge Profitability and Ability to Delight Customers

United States inflation is the highest it's been since the early 1980s. Inflation puts pressure on profitability and a company's ability to ensure its products delight customers.

In a comparison of the current "inflationary episode" to six other periods of high inflation since the 1940, the White House Council of Economic Advisors find the current pandemic-induced inflation spiral most comparable to the one after World War II, due to similar dynamics of limited supply in a time of pent-up demand. The comparison "suggests that inflation could quickly decline once supply chains are fully online and pent-up demand levels off."[22]

Nevertheless, uncertainty remains. Inflation's future trajectory will depend on how long supply chains are disrupted, wage negotiations, the evolution of consumer spending, and monetary policy. Geopolitical uncertainty adds volatility to prices.

CONSUMER BEHAVIOR AND EXPECTATIONS

Know Thy Customer

Customers today are more empowered than ever before and keeping up with their expectations requires a new level of customer obsession. The pandemic introduced new trends and accelerated other shifts. While some changes in COVID-induced consumer behavior and expectations are likely temporary, others are expected to permanently change the landscape.

- E-commerce accelerated at an unprecedented rate in the early days of the pandemic. A recent article from McKinsey noted that "homebound consumers abandoned ingrained shopping habits, hurtling e-Commerce into hyperdrive and compressing a decade's worth of digital adoption into 100 days."[23] As businesses innovated new ways to connect with consumers, consumers grew used to the change. Now fully conditioned to believe they can get "whatever they want, whenever they want, within minutes," consumer expectations will only continue to rise.[24]

> **There are a lot of avenues to connect with the customer, but the biggest, biggest CPG trend is, I want to know my customer and I want to reengage with them."**

Jeffrey Schaubschlager, Principal Consultant
3pointsDIGITAL

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- Brand loyalty is harder than ever to maintain thanks in part to the e-Commerce trends. "The shattering of brand loyalty" is a major consumer shift particularly among certain generations. Generation Z and Millennials are especially likely to switch to brands that reflect their values.[25] This is both a challenge and an opportunity for brands as they try to win new market share from competitors while maintaining their own fickle customers.

- Providing an experience, not just goods and services, is paramount to attracting new customers and maintaining current ones. Companies must create "new experiences that excite and delight the customer and also that don't lean heavily on resources that may be scarce, expensive, or non-existent." They "should involve consumers in creating solutions and uncovering aspects of the relationship that build upon emotions likely to drive loyalty."[26] This is no small feat, especially in a post-pandemic world where offline and online experiences once again need to be coordinated.

Contending with these trends is putting increased importance on developing a deep understanding of your customer. Companies are under pressure to maintain a 360-degree view of the consumer, including understanding sentiment. McKinsey warns that "meeting [consumers'] lofty expectations requires real-time analytical horsepower to process massive amounts of granular consumer data. Only then will you gain the 360-degree view of customers needed to serve their unmet needs and deliver the wow factor with an astonishingly personalized experience."[27]

REGULATORY PRESSURE

Increasing Complexity Makes Compliance Challenging

Increased consumer pressure has led regulatory authorities to put out more stringent rules and guidance across industries. The increasing complexity of regulations, as well as "tougher disclosure and reporting rules" makes regulatory compliance increasingly challenging.[28] Depending on the particular industry and regulation, companies now face issues of increased disclosures, ingredients they've used for decades newly outlawed, higher costs due to "levies such as the 'plastics tax'"[29] or any number of impacts to their businesses.

And there are no signs of regulations loosening any time soon. In 2022, proliferation of new rules and regulations is expected to be particularly intense around sustainability.[30] The increased calls for transparency have been especially notable among sustainability issues. Concerns about greenwashing and other sustainability claims will only cause regulations to further tighten. Additionally, "the European Union's Green Deal provides for all packaging in the EU area to be reused or recycled by 2030. The Circular Economy Action Plan also provides for products to have long life cycles and be repairable ('right to repair')."[31]

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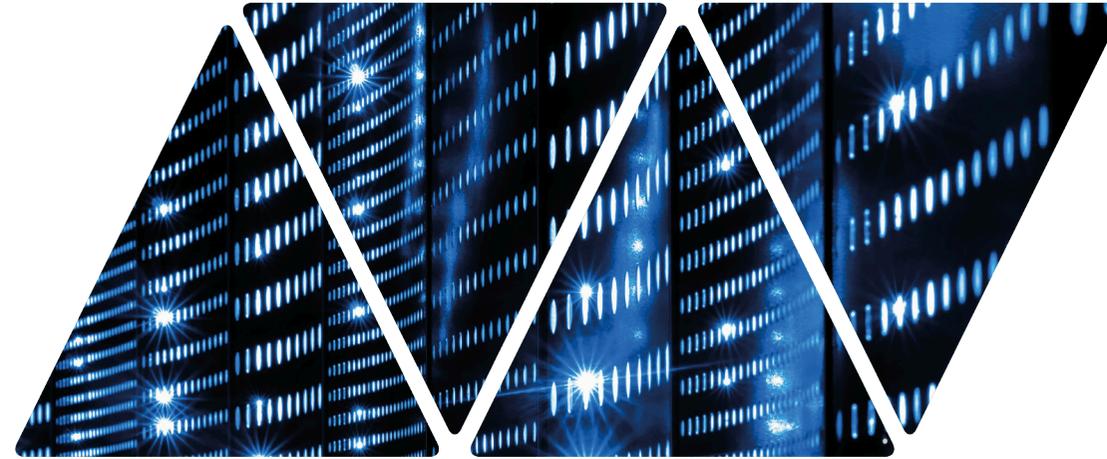
In the past, it was mainly technology companies that were assessed on cyber security resilience, but these days, businesses across a range of sectors are subject to such scrutiny."

Michael Bruch, Global Head of Liability Risk Consulting/ESG, AGCS

SUPPLY CHAIN ISSUES

A Perfect Storm

The COVID pandemic has caused disruptions to supply chains across industries. Caused by labor shortages, shifting product demand, lack of components and raw materials, cargo capacity issues, and bottlenecks at ports, these disruptions are forecast to continue for some time.[32, 33] These factors, along with inflation and added safety measures, mean higher costs for businesses and consumers. This has caused shifts to customer behaviors and loyalty. McKinsey notes:

Over 60% of US consumers have experienced out-of- stock items in the last three months of 2021, and when this happened, only 13% waited for the item to come back in stock versus the 39% who switched brand or products and the 32% who switched retailers. Additionally, we see both increased trading down across income groups with trading up increasing as well among higher income groups."[34]
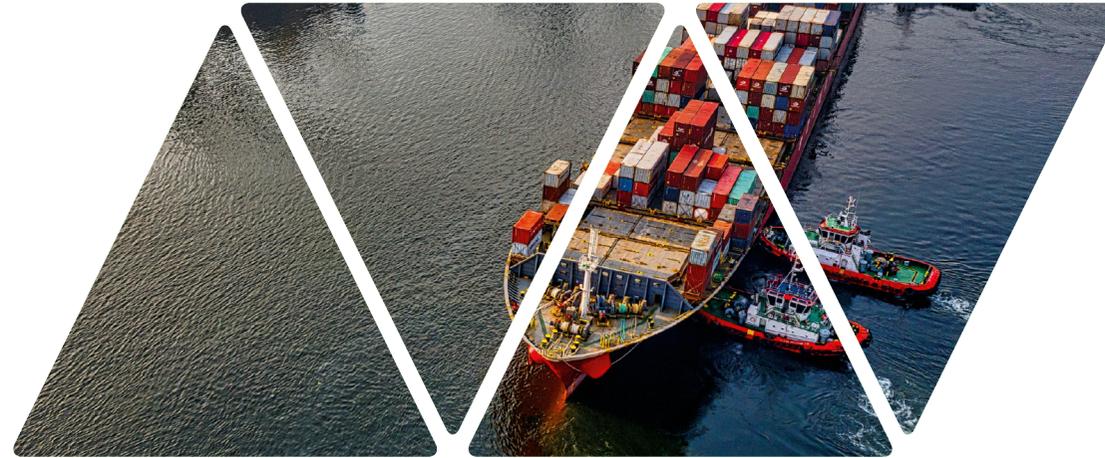
As Vinod Galani notes, the rules, regulations, and nuances related to supply chains have "changed dramatically." Mandates and employer policies around staffing are volatile and COVID has led to scenarios that no supply chain system could anticipate, no matter how integrated and sophisticated. People are reverting to manual decision making "because the system cannot handle those variables" causing a breakdown of automation.

At the same time that COVID was disrupting supply chains, many brands ramped up their relationships with co-manufacturers.

To gain flexibility, speed, and access to new or different technologies, many organizations are opting to outsource the entire manufacturing and go-to- market process for select products or product lines to co-manufacturing partners. But while this practice can benefit businesses, it also further complicates the supply chain and ultimately increases risk to the brand. Those businesses that choose this route will need to focus digitization efforts on data transparency in order to ensure limited third-party risk and regulatory compliance.

SUPPLY CHAIN INTERSECTION WITH KEY BUSINESS ISSUES

Cyber Security & Supply

Chains Supply chain cyber-attacks are on the rise. When a single supplier is attacked it is enough to bring down a whole network of providers. Attackers have found that a company's vulnerability lies with its suppliers, who may not be transparent about security breaches. Therefore, companies must conduct third- party risk assessments to ensure suppliers' cyber security is up to par.[35]

Sustainability & Supply Chains

COVID-19 has exacerbated weaknesses along the supply chain and the third-party risks that companies are susceptible to, including environmental risks. It is vital that companies vet their partners across the value chain to ensure they have a shared approach to environmental considerations.[36]

Workforce Trends & Supply Chains

The struggle of worker-retention has plagued the supply chain, causing mass delays, supply shortages, increased wages, and increased cost of consumer goods. Organizations that utilize third party logistic services are being hit with a 30% increase on shipping rates.[37]

Consumer Behavior & Supply Chains

As the pandemic evolved, consumers purchased different kinds of product. This had major impacts on supply chains that were not sufficiently resilient. The rapid acceleration of e-commerce also meant a need to shift transportation and delivery of goods further straining an already stressed system.

Regulatory Pressures & Supply Chains

Increased regulations are among top supply chain risks.[38] Manufacturers need assurance they will have access to critical supplies to innovate, compete globally, and support their customers. Regulatory uncertainty can "incentivize [offshore] product sourcing... for critical industry sectors."

TRENDS AND TENSIONS THREATEN BUSINESSES

Companies are up against a myriad of interacting internal challenges and external forces. The current state is not tenable.

Internally, digitalization and cloud adoption are difficult because they entail culture change and must not compromise cyber security. Workforce resignations and reshuffling mean increased pressure to ensure employees are efficient and engaged.

Externally, suppliers, regulators, and consumers are pressing on companies from all directions. Suppliers cannot always meet demand, have increased their prices, and have mixed ability to meet companies' needs for sustainable supplies and transparency. Regulators and consumers are demanding increased sustainability practices and transparency. Consumers balk at increased prices, while expecting products and experiences tailored to their changing behaviors.

These trends and tensions are driving the shift to a new business imperative.

WHAT'S AT STAKE?

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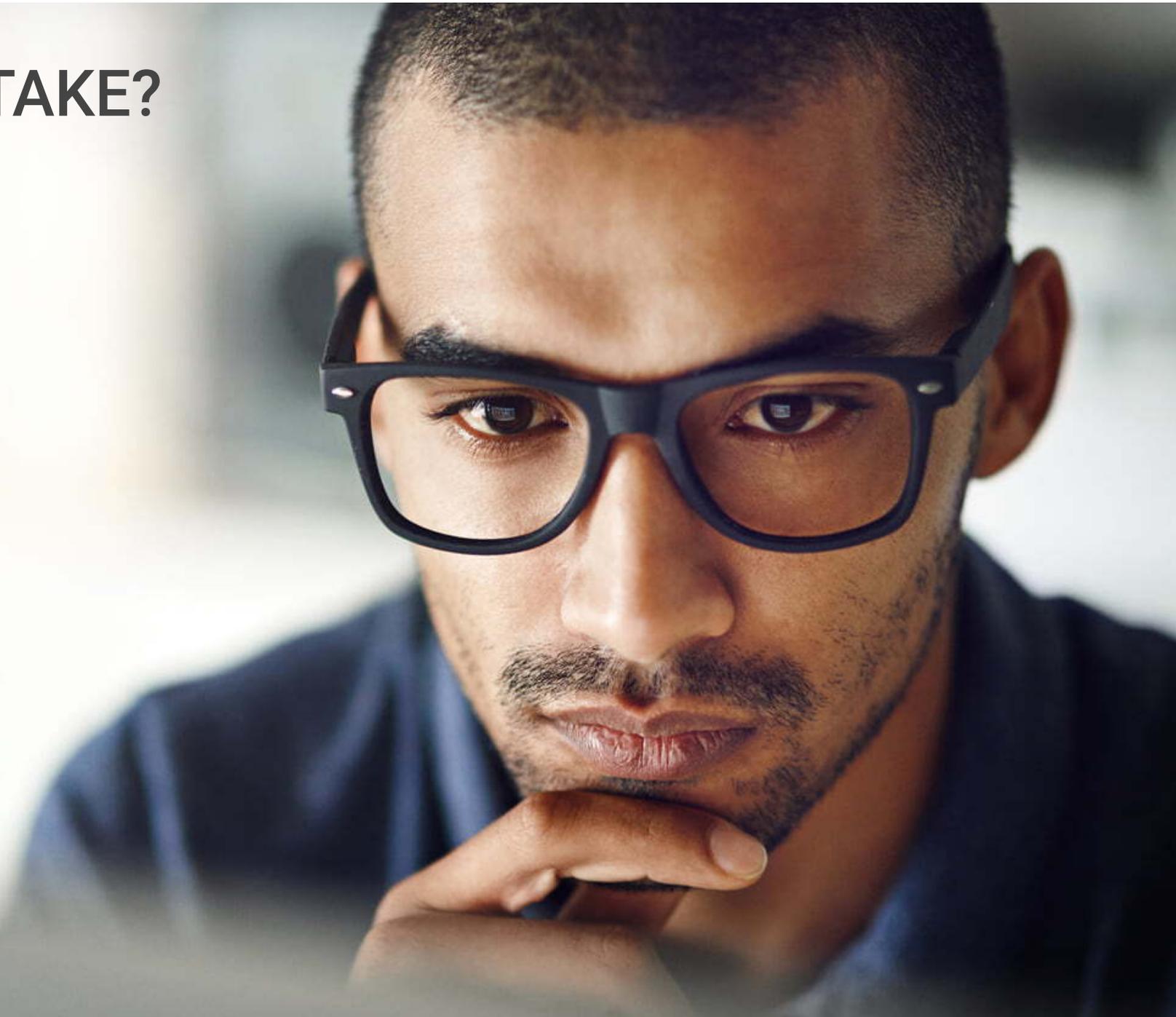
WHAT'S AT STAKE?

SLOW DECLINE OR RAPID FAILURE
The Risks Of Maintaining Yesterday's Business Practices

SEIZE THE OPPORTUNITIES
Outpace Disruption, Drive Business Outcomes, Strengthen Relationships

SLOW DECLINE OR RAPID FAILURE
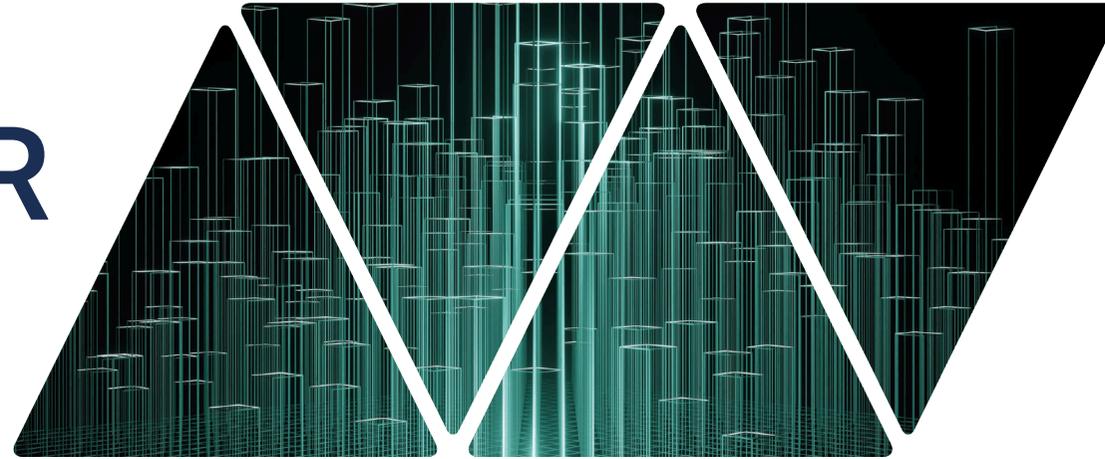
The Risks Of Maintaining Yesterday's Business Practices

Given the wealth of both internal and external pressures bearing down on companies, failure to transform is simply not an option. Reluctance and delays to transformation efforts can open the door to any number of serious threats. Organizations must move quickly to avoid:

- Risk of negative impacts from internal and external forces. Those who fail to act risk increased security breaches, difficulty retaining and attracting valued staff, limited ability to demonstrate sustainability, damaged brand and reputation, disappointed customers, and trouble overcoming regulatory compliance hurdles. If these risks come to fruition, they lead directly to lost market share and declining revenue.

- Inability to handle disruption. Failure to act can also make it harder to respond to disruptions, such as those related to inflation, the workforce, supply chains, natural disasters, and public health crises. Professor Venkatraman urges leaders to ask themselves, "Are you prepared to weather the portfolio of likely events that you're going to face over the next two to three years?" and "How good are you relative to your competitors who are facing the same shock?" Those who fail to heed the call of digitalization will find themselves unable to adjust in times of uncertainty.

SEIZE THE OPPORTUNITIES:

Outpace Disruption, Drive Business Outcomes, Strengthen Relationships

While the negative impacts of inaction are many, there are significant advantages for organizations that seize this opportunity to take action.

- Build resilience. Digital transformation builds foundational resilience to recover from unexpected shocks. This means companies have the agility needed to respond quickly and effectively when disruptions occur. To build resilience in their supply chains, consumer-goods companies can create end-to-end transparency, invest in digitization, improve communication and collaboration, embrace e-commerce, and build talent.[41]

- Drive better business outcomes. Digital transformation creates efficiencies in a company's day-to-day operations to minimize costs and allow human resources to focus on higher value work. It also opens the door to new business opportunities. A 2021 Boston Consulting Group survey showed that digital transformation "generate[s] clear and significant financial impact.

On average, companies that addressed... [certain] success factors reported a 21% EBIT increase in the businesses within the scope of the transformation compared with only a 10% increase on average for those companies that did not."[42]

- Advance reputation. Just as failure to act can lead to reputational harm, those organizations that digitally transform can strengthen relationships with employees, partners, potential hires, regulatory authorities, and consumers. If not transforming puts all parties at risk, investing in digital can build trust. Organizations looking to manage their brand reputation should therefore focus on their transformation efforts.

- Make sustainability transparent. Digital transformation can help companies make progress on sustainability initiatives by making the data available and making impacts transparent. To enable this level of transparency, companies need to develop a cradle-to-grave view of their products, from the origin of all materials, ingredients, and components to consumption and recycling or disposal. Digitization of the supply chain is necessary to provide this view. "It's time for executives to take an end-to-end view where digital is the catalyst that [brings] sustainability [data up to par with other company data]." Professor Venkatraman says. Sustainability reports should be truly transparent and backed up with data so they are "subject to an equal level of audit scrutiny similar to a financial report."

- Streamline regulatory processes. Digital transformation can help ease regulatory compliance by making data more available and processes more transparent. Transformation that drives efficiency can also speed up time to market. Streamlining regulatory review is one example. Having the right systems in place can reduce the rounds of back-and- forth with regulators before a new product can be brought to market.

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You have to be ready to disrupt or be disrupted."

Vinod Galani, Digital Transformation Strategist, JP Morgan

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THE STAKES DIFFER FOR DIGITAL NATIVES AND THEIR COMPETITORS

Companies must understand that the competition includes new, disruptive entrants that create their own set of challenges for businesses undertaking digital transformation.

- Digitally native companies are everywhere in all industries. New, innovative companies are popping up all the time, and no industry is exempt. To compete with these disruptors that aren't bogged down by legacy systems, overhead, or cultural resistance to change requires efficiency, a deep understanding of your customers' needs and motivators, and near-real-time information to execute rapidly.

- Risk aversion is a big problem when competing against digital native competitors. This is a difficult point for many business leaders to accept as it contradicts many of the practices that made these businesses successful originally. Unfortunately, in the digital age, it's riskier to not move forward. Jeffrey Schaubschlager notes: "Someone once asked [Ernest Hemingway], 'How did you go bankrupt?' And he said, 'Very slowly, then very quickly.'

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The nature of culture is slow, and to try and recover when you're already underwater doesn't work for a lot of companies."

Jeffrey Schaubschlager, Principal Consultant 3pointsDIGITAL

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And that's what happens to companies that ignore digital transformation. You lose your market share very, very slowly, then very quickly." Those who ignore digital transformation will lose their market share. And the nature of growth being slow means that when you try to recover in the midst of disaster, you're going to fail.

- No one is exempt from the digital imperative. It's not just legacy companies that need to digitally transform. Digital natives, considered disruptors ten years ago, are no longer the new kids in town. As no one is immune from the forward march of progress, both these younger companies and 100-year-old giants must evolve or risk falling behind.
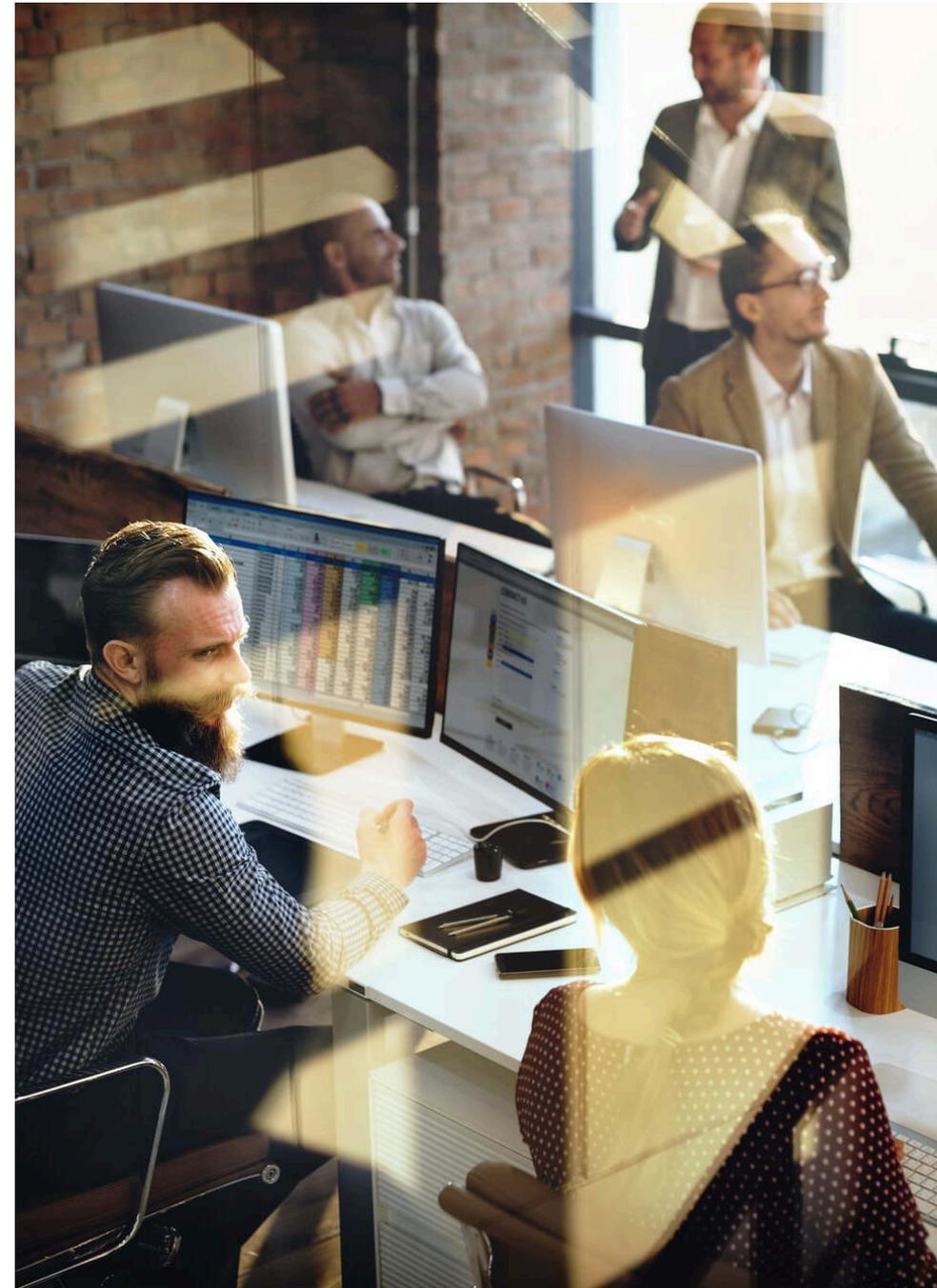
A VISION FOR THE FUTURE

AGILITY
EFFICIENCY
INNOVATION
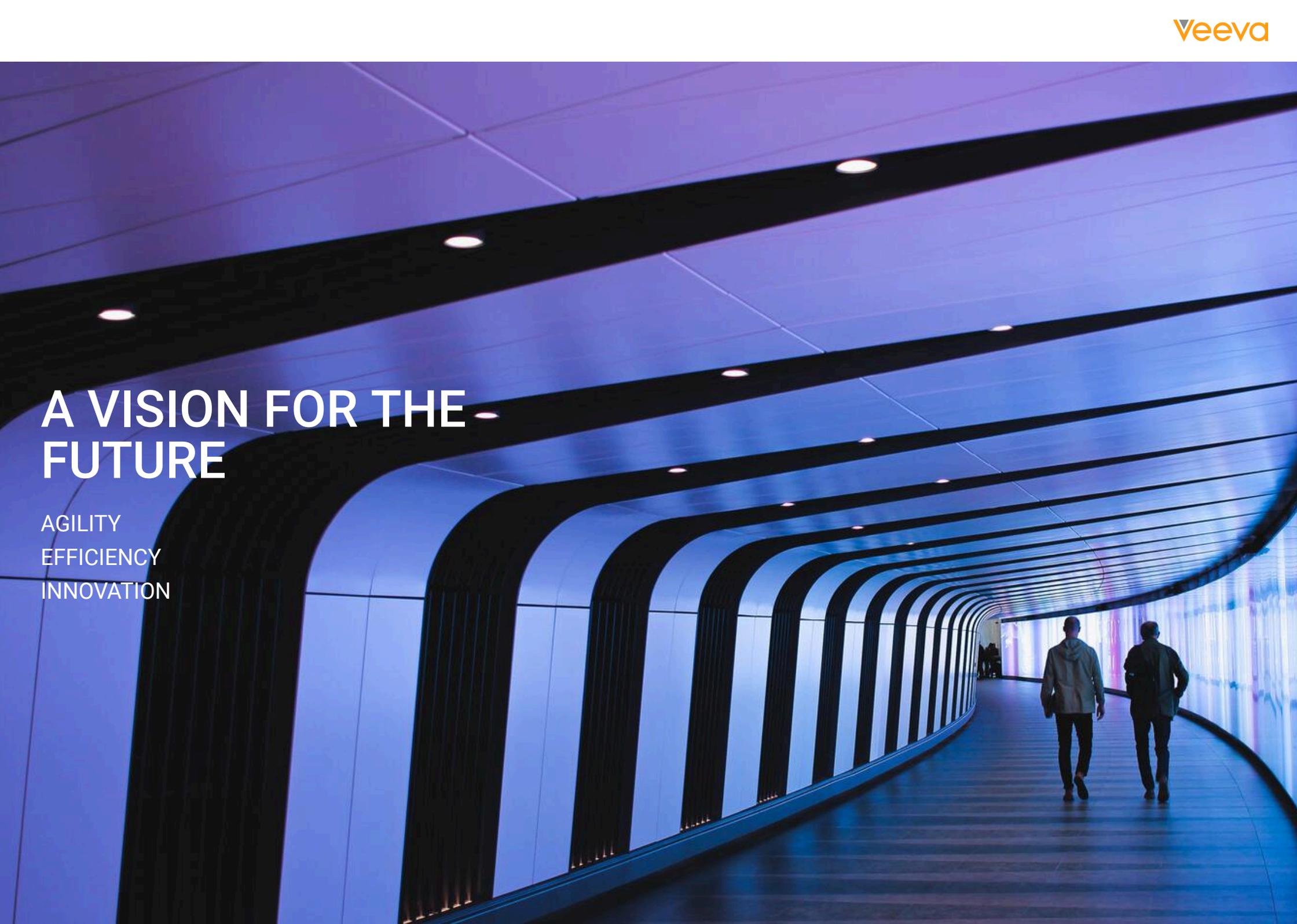
A VISION FOR THE FUTURE

AGILITY EFFICIENCY INNOVATION

Digital transformation isn't a technology challenge, and it can't just be led by IT. Change must be driven by the business, and IT must be in lockstep to enable the change. In order to stay ahead of the competition, drive better business outcomes, and advance their reputation, businesses will need to invest in transformational initiatives that directly contribute to:

INCREASED AGILITY: The future cannot be predicted, but what's certain is that disruptions will continue. Rather than trying to forecast the future, companies should invest in developing the agility and resilience that will enable them to adapt to whatever comes next.

"Agility is the ability of an organization to renew itself, adapt, change quickly, and succeed in a rapidly changing, ambiguous, turbulent environment... Agility needs... a dynamic capability, the ability to move fast—speed, nimbleness, responsiveness. And agility requires stability, a stable foundation—a platform, if you will—of things that don't change. It's this stable backbone that becomes a springboard for the company, an anchor point that doesn't change."[43] Marc Engel, former Chief Supply Chain Officer at Unilever highlights this need in light of current pressures on supply chains: "You're seeing shortages of everything, volatility in commodities, price hikes, and supply chains having to respond with a lot of agility and resilience much more than before."

STREAMLINED OPERATIONS: Digitization allows companies to break down internal silos. Mature companies can make the same, real-time data available across the value chain, which now extends past the four walls of their organization. Businesses use an increasing number of suppliers, partners, and other outsourcing companies which add value but also complicate matters. Through strategic technology investments, companies can enable seamless, secure collaboration with co-manufacturers, and increase brand owner confidence that the end product will delight its consumers. In addition to having an end-to-end view of internal processes, suppliers, and other partners, companies are establishing an end-to-end view of customers and the customer journey.

OPERATIONALIZED INNOVATION: Now that many companies have moved through an initial set of transformations focused on customer-facing systems and productivity, they can expand transformation efforts to drive innovation. "Successful digital transformers are upping the ante, and as they leverage their digital skills to innovate faster and better, the gap will widen between winning digital transformers and their laggard competitors.[44]

Some companies are appointing a Chief Innovation Officer to synchronize business strategy and innovation strategy.[45] But innovation cannot be just one person – or team's – job. The more efficient, agile, and data-driven the organization, the more likely innovation is to emerge from the ground-up rather than being driven by an ivory tower approach.
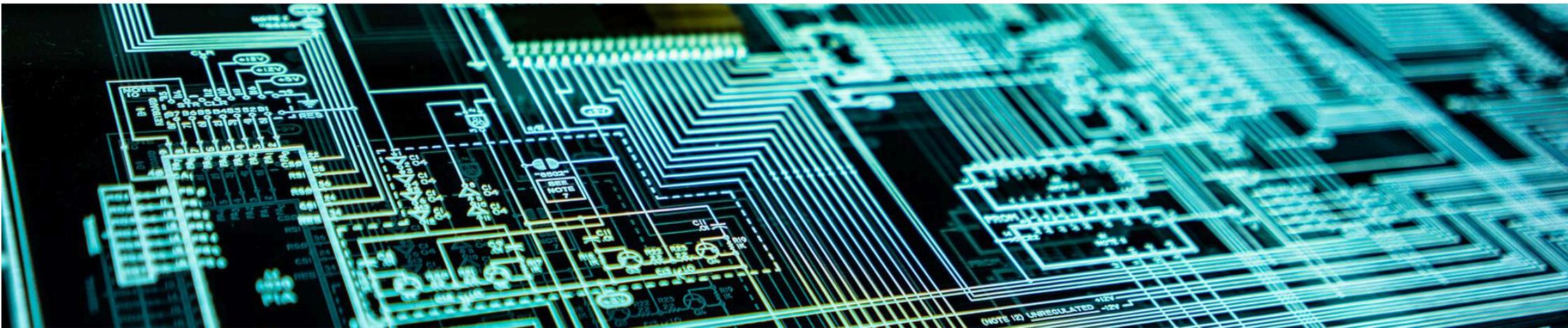
" It's hard enough when you don't have a lot of these disruptions because you can't forecast the weather and you can't forecast consumer behaviors and promotions of yourself and other people and what that does to demand on a good day... But where we are now, we're seeing the whole vision of synchronization and agility."

Marc Engel,
former Chief Supply Chain Officer, Unilever

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" Companies need to develop more resiliency in anticipating these shocks and being prepared for them. And it's in this...realm that the digital transformation becomes important: to be proactive and understand how agaile and flexible and what kind of slack can be built into the supply chain."

Venkat Venkatraman, Professor of Management,
Boston University Questrom School of Business

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PEOPLE & DATA ENABLED BY TECHNOLOGY

The all-encompassing nature of digital transformation requires enterprise-wide involvement. To enact this agile, efficient, and innovative vision requires a focus on:

LEADERSHIP: Senior executive support drives real change. Professor Venkatraman maintains that "digital transformation is not a technology challenge but rather a senior management challenge because they have to figure out how to allocate the resources." Each member of the C-Suite has a role to play, ensuring critical questions are addressed.

Interactive poll not supported

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CHIEF EXECUTIVE OFFICER:
How will this initiative advance our business strategy?

"

CHIEF OPERATIONS OFFICER:
How will the workstream function?

"

CHIEF DIGITAL OFFICER:
From an operations perspective, do I have the right strategy for continuous improvement? How can I leverage digital to make me more efficient?

"

CHIEF INNOVATION OFFICER:
How does this initiative align with our innovation strategy? How can innovation make it even better?

"

CHIEF HUMAN RESOURCES OFFICER:
Do I have the right skills? Do I need to build a new capability within my organization?

"

CHIEF FINANCIAL OFFICER:
What is this going to do to my bottom line? How much investment will I need?

"

CHIEF MARKETING OFFICER:
How do you take it into the marketplace?

"

CHIEF SUPPLY CHAIN OFFICER:
What new sources of supply will be needed? How will transformation improve my supply chain?

PEOPLE & DATA ENABLED BY TECHNOLOGY

CULTURE: Jeffrey Schaubschlager notes that "The biggest hurdle [to digital transformation] isn't the software or the process, it's the people." Robust change management systems must be in place to drive widespread change and promote a culture of innovation. But cultures don't change overnight as they are driven by behavior and behaviors are driven by incentives. This means your metrics need to change. Vinod Galani suggests business leaders ask themselves, "Are we measuring what really matters? Are we measuring metrics that will drive the change in behavior we want to see?" If organizations aren't looking at the whole cycle – KPIs, incentives, behaviors, culture – they won't be successful.

DATA: Data is every business' most valuable asset because data- driven, real-time insights are critical to successful decision-making. Data can help organizations evaluate the success of innovating new products and services, understand the short- and long-term implications of business disruptions, and better understand their customers, among many other things. "Most of the problems that we see in companies is not that they don't have the data but it's all in different databases" notes Professor Venkatraman. Digitization enables agility by ensuring data is accessible to those that need it, when needed, both at a granular level, and in aggregate.

DEVELOPING A DIGITAL MINDSET

Culture · KPIs · Incentives · Behaviors
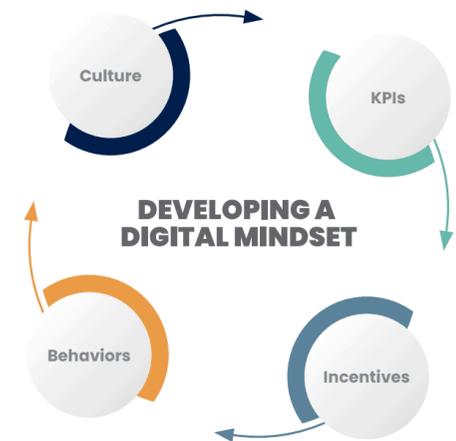
PEOPLE & DATA ENABLED BY TECHNOLOGY

TECHNOLOGY: Many organizations start with tech, but updated technology means little if the people, processes, data, and metrics aren't already in place. Technology must be an enabler of digital transformation, not its culmination. However, this is not to say that picking the right technology is unimportant. Transformation efforts can still fail if your selected solutions aren't right leading to lost investment, frustrated employees, and disappointed leadership. Selecting a technology partner that understands your business and is committed to enabling your success is therefore a critical transformation step.

Cloud adoption can improve flexibility, and lower costs by reducing the need for expensive, high-maintenance on-prem servers and offering the built-in security expertise of cloud service providers.[46]

Furthermore, business leaders' security concerns can be easily addressed by working with leading cloud providers instead of relying on inhouse solutions. In fact, top cloud platforms, such as Amazon Web Services (AWS), are widely trusted precisely because they offer world class security. They can recruit the best talent to solve the toughest security concerns, well surpassing what individual companies can handle in-house for their on-prem systems.

At the end of the day, modernized operations are often less vulnerable to attack than legacy systems that have been pieced together over many years. The push to digitally transform, therefore, is also a push to improve overall cybersecurity.

"

Technology should be seen not as a cost center to minimize... but as an investment center and growth center to drive the organization to... a very different future in which they can achieve both profitability and growth."

Venkat Venkatraman, Professor of Management, Boston University Questrom School of Business

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AWS's whole business model is built on being secure, because if they're not, they [have] no business..."

Jeffrey Schaubschlager, Principal Consultant,
3pointsDIGITAL

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THE STAKES ARE HIGH BUT THE FUTURE IS BRIGHT

Companies must ensure they are prepared to weather risks and disruptions to stay competitive. Seizing the opportunities digital transformation presents mean companies will outpace disruptions, drive business outcomes, and strengthen relationships. The future state your organization should be aiming for is characterized by agility, efficiency, and innovation, driven by people and data, enabled by technology.

But how do you get there from where you are now? The next section will show you how.

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AWS's whole business model is built on being secure, because if they're not, they [have] no business..."

Jeffrey Schaubschlager, Principal Consultant,
3pointsDIGITAL

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THE PATH FORWARD

THE PATH FORWARD

ALIGN YOUR VISION MEASURE PROGRESS SCALE
FOR STEADY GROWTH

Once companies have a vision for the future, they can take steps to realize that future. Starting with low-risk, high- impact projects demonstrates credibility and can build momentum for future initiatives. Transformation leaders must take care to bring the company culture along on the journey for initiatives to stay on track, however. So, where do you begin?

Change must be incremental to be successful in the long-term.

THINK BIG.

START SMALL.   SCALE FAST.

DESIGN YOUR VISION

Few things are as intimidating as staring at a blank sheet of paper. To start building your transformation vision, investigate and understand what digital transformation means in general, in your industry, and for your company specifically. Develop a granular understanding of your company's real source of competitive advantage and how digital transformation leverages these advantages to deliver significant new sources of revenue. Remember, transformation must be tied to business outcomes to be impactful.[47]

MEASURE YOUR DIGITAL TRANSFORMATION MATURITY

There are many proven frameworks available today to help your organization gauge digital maturity. Select one that best aligns to your vision, industry, and region. Fight the urge to take an unrealistically rosy view of your organization, which Vinod Galani notes is common. Be honest and realistic when assessing your place on the curve, and then accept where you are.

IDENTIFY GAPS

Identify the gaps in your people, processes, and technology based on your maturity and future vision. Ensure you understand why these gaps exist and what you hope to achieve by closing them before moving on to the next stage.

IDENTIFY USE CASES

Identify the use cases that must be tackled to close these gaps. Any use case that can help drive customer trust and loyalty – like in the areas of quality, regulatory, and safety – can be a good place to start. Regardless, each line of business needs a champion to help define those use cases.

To identify these use cases which can provide proof of concept, consider:

What can be measured?
What aligns to your vision?
What is highest value?

Once these priority use cases are identified, they can be tackled through discrete, rapid, pilot projects. After successfully attacking the low hanging fruit, scale up. On the other hand, "if it fails, then you know that you're not investing much in the wrong areas, [and] you [can] quickly pivot to a different area."[48] In either scenario, you have learned something and are well on your way to transformation progress. This is also the stage when you may find yourself identifying technology partners to assist on your journey. Carefully vet these potential partners to ensure alignment on goals, industry expertise, and a deep understanding of your business. Once carefully selected, these trusted technology experts can become invaluable partners.

Cloud adoption is one element of the solution. While the switch to the cloud can seem daunting, it does not have to happen overnight. Nor should it. Companies can modernize and transform using a hybrid solution of cloud and on-prem solutions, prioritizing cloud adoption where it will add the most value.

But remember, transformation must go hand-in-hand with a robust change management function. Companies must anticipate resistance to change and have a pre-emptive strategy to discourage disruption. Embedding "change instigators" and "change adopters" at every level – from leadership down – is critical to driving the cultural change needed to transform.[49]

Don't get discouraged when initiatives move slower or fail more often that you'd like. Change of this scale can and should be incremental. "Reinvention... is not achieved through one big transformation program," notes Professor Venkatraman, "but through a portfolio of business experiments that are constantly fine-tuned and refined based on results and external shifts."[50] Ultimately, in the long-term, business transformation happens in two major phases:

PHASE 1: Working more efficiently. This phase is all about working smarter. Focus on process-driven and supply chain systems to gain efficiencies and operate more cost effectively. At this stage, innovation is limited, and operational and revenue models stay basically unchanged. Regardless, this is an important first step and sets a "good foundation" before Jeff Schaubschlager suggests asking "How do I compete with the disrupters? Or how do I become a disruptor?"

PHASE 2: Radical change. To compete with digital natives and other disrupters, entire operating and business models will need to shift. Innovation is key to reimaging the future of business. Rather than projecting "the future based on past activities and present realities," envision a future that solves customer needs. Then build "new business capabilities rooted in a wide range of digital functionalities" to realize that future.[51] Projects designed to "shape future business strategy rather than merely support current business operations" require "cross-functional coordination involving decision-rights, roles, and responsibilities" so the entire executive team must be involved.[52]

"

Digital transformation is… about looking at the people, process, technologies for your company. Where you're at. Where you need to be. How do you get from here to there?"

– Jeffrey Schaubschlager, Principal Consultant, 3pointsDIGITAL

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You cannot switch on and say, 'Okay, I'm digitally transformed and tomorrow I start saving millions of dollars'… You have a really steady state of showing improvement, establishing a baseline, and then continuous optimization."

– Vinod Galani, Digital Transformation Strategist, JP Morgan

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THE PATH FORWARD STARTS WITH VISION, LAUNCHES WITH PILOT PROJECTS AND SCALES TO MAXIMIZE IMPACT

Companies must develop a vision of their transformed future tailored to their organization, so they can map a route to that future, based on an understanding of where they are today. The first steps along the route must be discrete, rapid, pilot projects. These projects must be chosen based on each potential project's ability to measure success, alignment with vision, and value. Once value has been proven via low-hanging-fruit pilot projects, companies can expand the initiative. Typically, the path to the future begins with initiatives that enable the company to work more efficiently. The longer term may entail radical change as companies transform their entire business to unlock the power and potential of data.

Think big. Start small. Scale fast.

Contact Bruce Beilfuss, Veeva's Vice President of Strategy, to discuss your organization's unique circumstances.

bruce.beilfuss@veeva.com

KEY INSIGHTS

Advancing Reputation, Driving Better Business Outcomes, and Staying Ahead of Competition Through Digital Transformation

Interacting **INTERNAL CHALLENGES** and **EXTERNAL FORCES** make the current state untenable, driving the new business imperative.
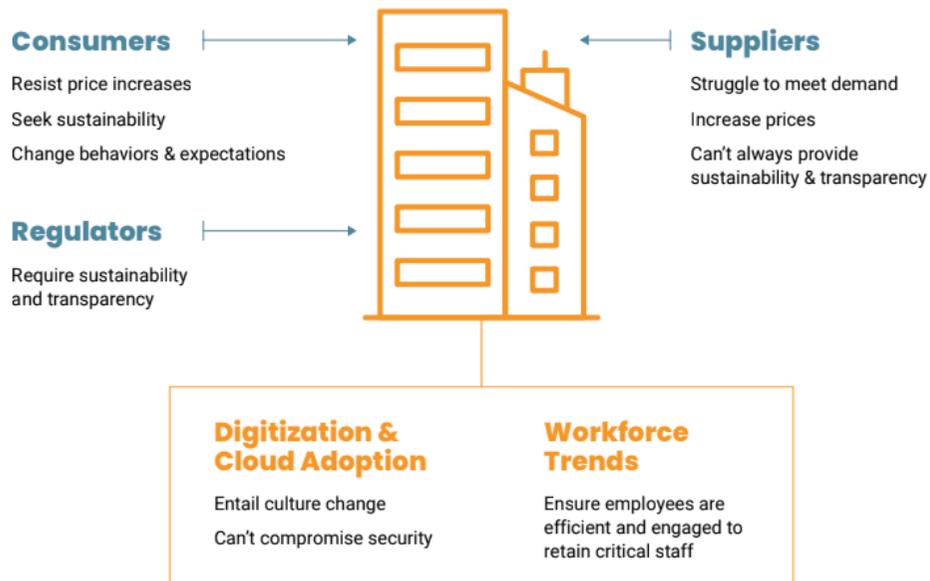
Operating within this context, change is needed to not just **avoid negative consequences**, but also to **grasp positive opportunities.**

Consumers

Resist price increases

Seek sustainability

Change behaviors & expectations

Suppliers

Struggle to meet demand

Increase prices

Can't always provide sustainability & transparency

Regulators

Require sustainability and transparency

Digitization & Cloud Adoption

Entail culture change

Can't compromise security

Workforce Trends

Ensure employees are efficient and engaged to retain critical staff

Seize Opportunities

Outpace disruptions, drive business outcomes, strengthen relationships

Weather the Storm

Internal and external risks and disruptions

KEY INSIGHTS

Advancing Reputation, Driving Better Business Outcomes, and Staying Ahead of Competition Through Digital Transformation

The **future state** organizations should aim for is characterized by **agility, efficiency, and innovation,** driven by **people and data,** enabled by **technology.**

To achieve this future vision, companies must **take incremental steps to fully realize the potential of digital transformation.** Some companies will go further and radically transform their businesses, putting data at the center of the value they deliver.

AGILITY / EFFICIENCY / INNOVATION

PEOPLE & DATA

TECHNOLOGY

THINK BIG.

Develop vision trailored to your organization

Understand your current state and maturity

Chart a course

START SMALL.

Execute discrete, rapid pilot projects

Select pilot projects that offer highest value

Leverage successes to expand

SCALE FAST.

Scale use cases that drive efficiency

Transform business by unlocking the power of data

METHODOLOGY

METHODOLOGY

ENGINE conducted a literature review and in-depth interviews with three industry experts.

In addition to searching various subscription content aggregators that index a wide variety of business trade and consumer publications, ENGINE identified numerous other sources that came from industry magazines and websites, mainstream news sources, and consulting and analyst firms. Sources are cited throughout this document.

The following are the credentials of the experts interviewed:

VENKAT VENKATRAMAN, Professor of Management, Boston University Questrom School of Business: Prof. Venkatraman studies how established companies recognize and respond to digital technologies. He believes we have seen the first- wave of transformation in asset-light settings such as software, music, media and entertainment and we are likely to see asset-heavy, information-rich sectors such as automotive, logistics, healthcare. agriculture and logistics go through significant shifts. He is currently extending the work published in his book, The Digital Matrix: New Rules for Business Transformation Through Technology into a new book focused specifically on asset-heavy sectors.

JEFFREY SCHAUBSCHLAGER, Principal Consultant, 3pointsDIGITAL: A specialist in digital strategy, data strategy, Jeffrey Schaubschlager is a successful leader and consultant with large transformation in numerous industries. He brings a wealth of experience and talent for putting a digital lens on a company's data and business models. He guides executive leadership teams in developing digital business strategies and the related transformation success roadmaps. His expertise in digital transformation spans strategic planning, Agile product development, technology execution management and the related data and insights. A proven expert on how to leverage data through the use of APIs, Insights and Analytics, and next generation digital platforms to evolve a company, Jeffrey has spoken internationally at numerous conferences including the renowned BAPI Conference (Business of APIs) and the API Strategy Conference.

VINOD GALANI, Digital Transformation Strategist, JP Morgan: A visionary, strategically focused leader specializing in digital transformation advisory, Vinod Galani provides strategic direction and turnaround leadership for local and global business. Drives sales growth through the right global digital strategy, innovation, business processes, and alliances. Achieves operational excellence as a champion for growth, continuous improvement, and change management. Positioned companies and teams to out-compete, out-innovate, and outperform market and industry benchmarks. His career has moved from working on the details of implementation to an increasingly strategic work, leading to his current expert and advisory role.

ENDNOTES

ENDNOTES

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Thank you for reading

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www.industries.veeva.com
Pleasanton, California
4280 Hacienda Drive
Pleasanton, CA 94588
Phone: +1 866 243 2055
info@industries.veeva.com