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Application-Centric Transformation for the Digital Age

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PREPARED FOR

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About this paper

A Black & White paper is a study based on primary research survey data which assesses the market dynamics of a key enterprise technology segment through the lens of the 'on the ground' experience and opinions of real practitioners – what they are doing, and why they are doing it.

About 451 Research

451 Research is a preeminent information technology research and advisory company. With a core focus on technology innovation and market disruption, we provide essential insight for leaders of the digital economy. More than 100 analysts and consultants deliver that insight via syndicated research, advisory services and live events to over 1,000 client organizations in North America, Europe and around the world. Founded in 2000 and headquartered in New York, 451 Research is a division of The 451 Group.

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Introduction

Technology is radically changing many aspects of daily life, as more and more processes and tasks are going digital. These digital processes are transforming the way we bank, use transportation, and monitor and manage our health, as well as how we access and use technology in the workplace. 'Digital native' entrants in nearly every market are driving this shift.

Digital transformation is being empowered by modern business process re-engineering and new application-centric cloud service models. This means that the majority of organizations need to evolve IT services more quickly to keep up with digital requirements.

Business leaders are now finding that their organizations are competing in an application economy. In this environment, applications have become central to virtually every area of a business' performance, including the quality of its products and services, the degree of its operational efficiency and the scale of its profits. Consequently, the organizations that become leading application innovators will likely fare much better than others. According to our survey, organizations – on average – spend at least 30% of their IT budgets on applications, whether that is SaaS applications, packaged enterprise applications or custom-built applications.

For most enterprises, application innovation involves incorporating existing IT investments as well as embracing new technologies. We are entering a period when hybrid IT – a mix of legacy systems and cloud delivery – is becoming the new normal.

In this 451 Research Black & White Paper, we examine exclusive custom survey data to better understand how enterprise application estates are aiding digital transformation projects set up to address the typical CEO growth agenda, delving into the following issues:

- To what extent organizations have an application transformation program in place and what approaches they are taking to service new digital requirements

- The top challenges that organizations face as they embark on application modernization projects

- Whether organizations have the skills and resources in place to tackle the inherent challenges

- In which areas organizations are looking for external support

- The characteristics of a good application transformation partner.

METHODOLOGY

The survey data used in this report was collected in March 2016 by 451 Research – commissioned by DXC Technology (DXC) – using a web-based survey to query 202 midsized and large organizations across sever-al verticals about their application transformation plans and experiences. The sample included respondents from North America, Europe and Asia-Pacific, with job titles ranging from IT managers to C-level executives.
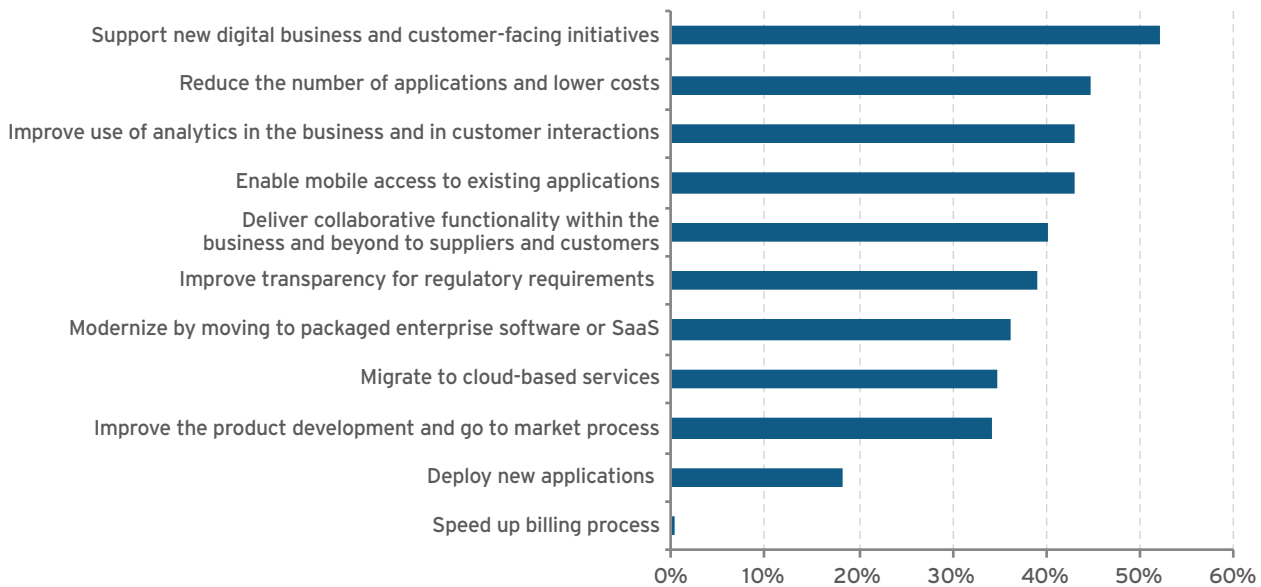
Primary Pain Points Driving Transformation

Consumer technology and cloud delivery are having a huge impact on the business environment, making customer access to services seductively easy by enabling interactions any time, any place and via any device. The top drivers for application transformation called out by senior IT decision-makers in Figure 1 point to the need to modernize the customer experience. Organizations are undertaking customer-facing initiatives to digitalize services. They are using analytics to improve the efficiency and effectiveness of employees and business processes internally and in customer interactions, as well as delivering collaborative functionality between the business and its suppliers and customers.

Although still important, the imperative to reduce the number, and lower the running costs, of existing applications is no longer the main pain point that organizations are trying to address when running application transformation projects. Instead, the goal is to better service customers by improving the agility of the business.

Figure 1: Drivers for Application Transformation

Q: What did or is driving the need for transforming/modernizing your application portfolio? [n=202; select all that apply]
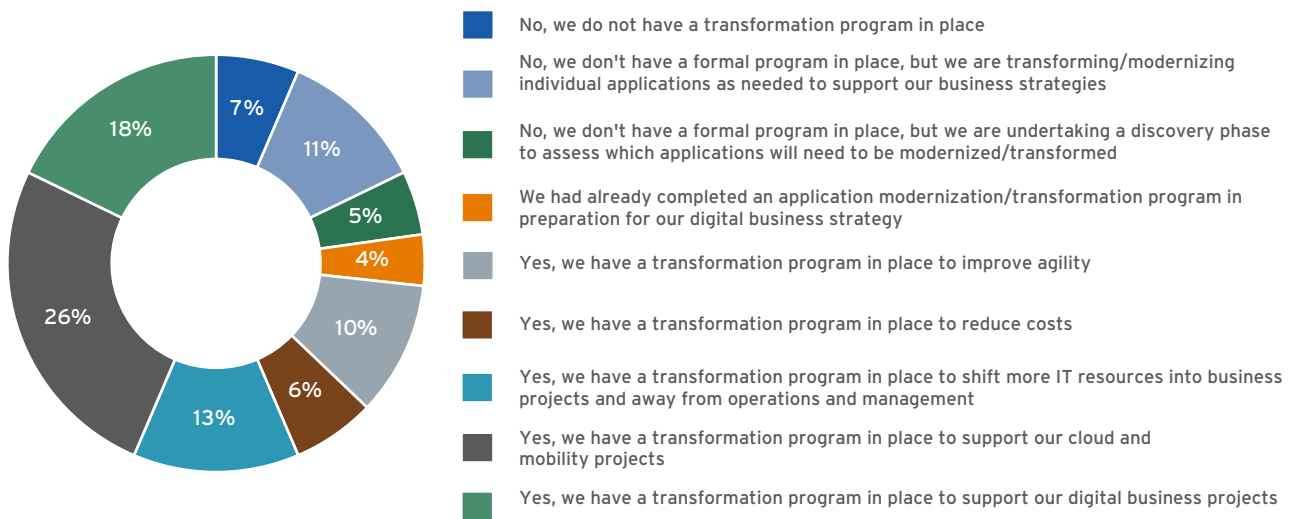
Developing a Successful Transformation Project

Nearly three-quarters of organizations surveyed (73%) have a transformation program in place (see Figure 2), although they vary in the main desired outcome of the program; more than half of that 73% say the goal is to support cloud, mobility or digital business initiatives.

Figure 2: Application Transformation Programs in Place

Q: Does your organization have an application transformation program in place? [n=202]

- No, we do not have a transformation program in place
- No, we don't have a formal program in place, but we are transforming/modernizing individual applications as needed to support our business strategies
- No, we don't have a formal program in place, but we are undertaking a discovery phase to assess which applications will need to be modernized/transformed
- We had already completed an application modernization/transformation program in preparation for our digital business strategy
- Yes, we have a transformation program in place to improve agility
- Yes, we have a transformation program in place to reduce costs
- Yes, we have a transformation program in place to shift more IT resources into business projects and away from operations and management
- Yes, we have a transformation program in place to support our cloud and mobility projects
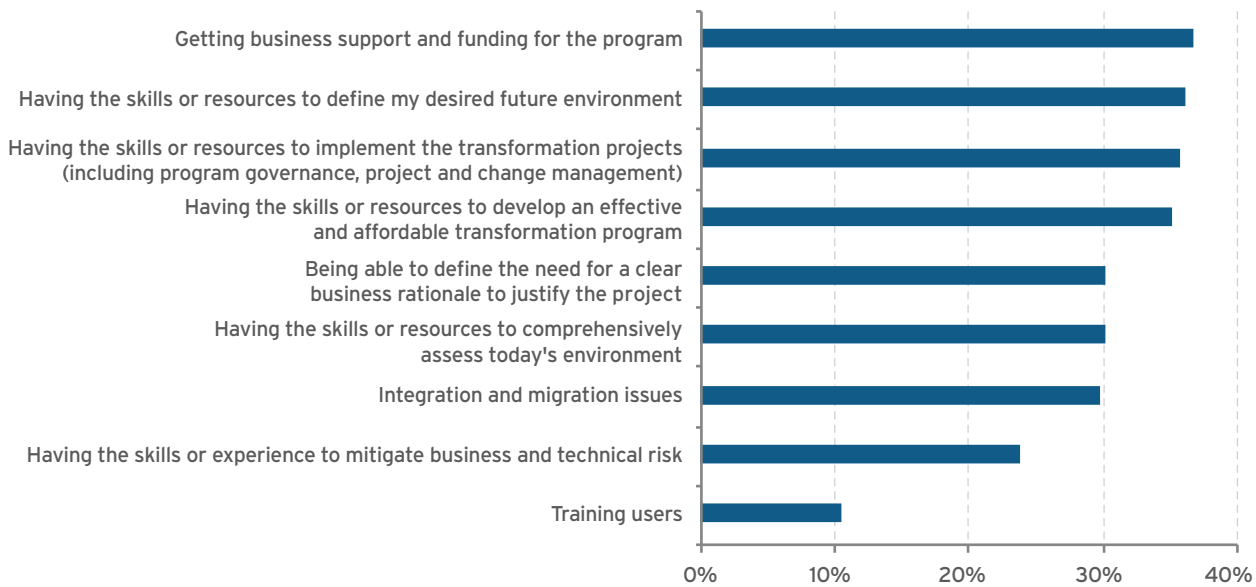- Yes, we have a transformation program in place to support our digital business projects

This means that most enterprises can speak from experience when identifying the main challenges facing an application transformation project. These challenges can be summarized as making the business case for the project and then having the internal skills and resources to deliver the project that addresses the business case (see Figure 3).

Many enterprises struggle to get business support and funding for their transformation programs for several interrelated reasons: they find it difficult to provide a clear business rationale for the project, and do not have the skills and resources to define the desired environment (see Figure 3).

The team working on any transformation project needs to be able to get the project from the 'as is' to the 'to be' state, but it would seem that many projects are initially stalling because the team does not have a clear idea of the destination or goal. It may be that this lack of confidence in the direction of travel for transformation makes it difficult to consider the business and technical risks that may be involved in projects, which is why this is seen as a less important challenge by many decision-makers. Certainly, defining the desired environment is a slightly bigger concern than understanding the current 'as is' environment. However, both are critical for success because it is important to know where the new software apps delivering digital services will touch the old systems.

Figure 3: Application Transformation Challenges

Q: What are the top challenges for a successful application transformation/modernization project? [n=202; select top three]

The digital applications that are typically being introduced to improve the customer experience on the front end cannot be effectively delivered without being integrated with existing data and data-processing systems. In order to successfully execute an application transformation project, the team needs to understand the end-to-end digital business chain involved from the enterprise and business architecture through the information and the infrastructure domains.

The C-suite and VPs, specifically, are less concerned about integration and migration issues, and more so about getting business support and having the skills and resources to develop and implement an effective and affordable transformation program.
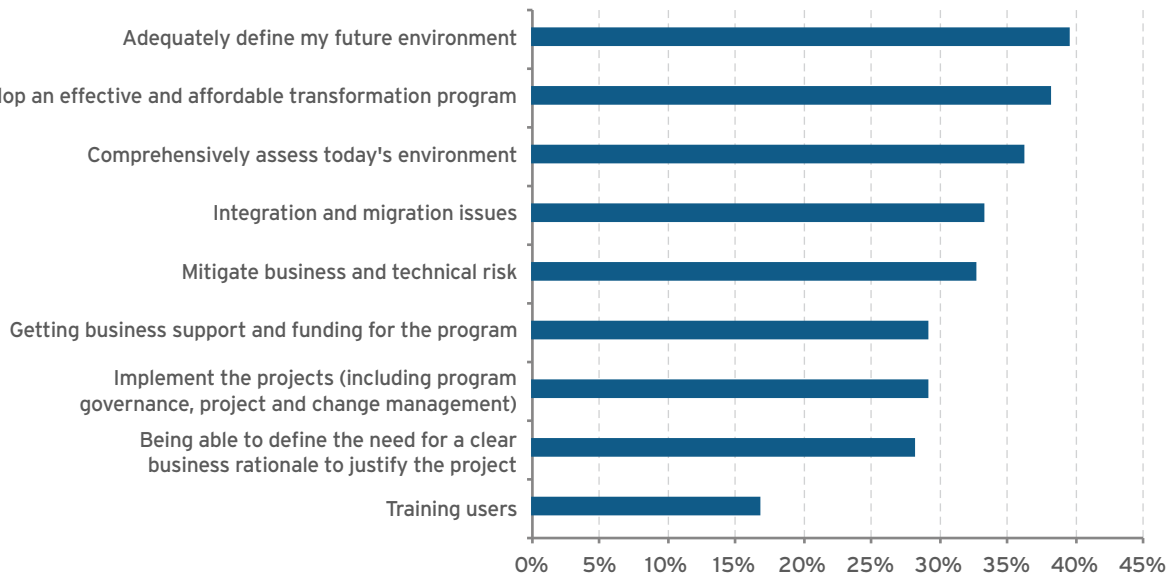
The majority of enterprises know that they do not have the internal skills and resources in place to do this digital business chain mapping or to develop and implement an effective application transformation project with the requisite migration and integration capabilities involved. And yet the transformation projects must be delivered if the enterprise is to be competitive in the application-centric digital era.

Why Partner?

Clearly, because senior IT decision-makers are aware that they have large gaps in the internal expertise to successfully deliver a transformation program, enterprises are looking for external partners (see Figure 4). In summary, organizations are looking for partners that can help them define and then reach the end of the transformation journey as quickly as possible.

Figure 4: The Need for Application Transformation Partners

Q: For which of these areas are you considering, looking for, or actively using an application services/transformation partner (that has the tools, skills and experience) to work with? [n=202; select all that apply]

Respondents want help with defining the transformation project in terms of the sets of programs and activities required, as well as their sequential flow and management. They also want support in assessing their current environment: to identify how many applications there are, where they are, and how they fit together and align with the business strategy.

For high-ranking executives, the ability to define a clear business rationale to justify the project is among the top three challenges. Integration and migration issues cause headaches for IT managers rather than the C-suite.

Partners need to be experienced in applying advanced technologies so that integration and migration issues can be addressed or avoided. When possible, IT decision-makers do not want to go through the learning curve alone; they want to work with partners that can mitigate business and technical risks and to help them derive learnings from an early point in the project.

Who Should I Work With?

In a relatively short time, the cloud has become the central enabler and delivery mechanism for virtually every major technology shift, including mobile applications, big data, social networking and APIs. As they seek to achieve their application innovation mandates, enterprises will increasingly need application-focused cloud services to succeed. In this context, the vast majority of organizations surveyed have identified a strategic application provider that they work with.

Clearly, application vendors do not themselves have the professional services capabilities required to partner with enterprises to deliver a digital-transformation program, but professional services companies that have a close partnership with the buyer's strategic application provider will be considered more seriously as a transformation partner.

Beyond this, customers are looking for proven ability to both plan and deliver an application transformation project that takes into account the current environment and the strategic destination (see Figure 5). Partners need to be able to demonstrate expertise in business processes, applications, operations, security and technology.

Figure 5: Key Partner Selection Criteria for Application Transformation

Q: If you were looking for a transformation partner, what would be your key partner-selection criteria? [n=202; select top three]

Trusted partners that can keep risk under control while accelerating the targeted business outcomes are particularly sought after. However, somewhat counterintuitively, buyers are not too bothered about the partner's years in business and financial stability, as long as the service provider can demonstrate its experience in mitigating risks. This probably speaks to a market challenge in finding partners to work with that both understand existing environments and have the skills and resources in place to support the more advanced technologies that digital transformation projects require.

Not surprisingly, higher-ranking executives have a different order of importance when it comes to key partner-selection criteria – especially with the top three priorities (see Figure 6). Their top priorities reflect more strategic necessities and pressures such as balancing business needs with IT reality, accelerating time to business outcomes and smooth collaboration. This is because C-level executives are responsible for much more than 'simply' managing people, processes and projects, or the company for that matter. Decision-making is more intense and complicated in the C-suite – they need to focus on how to move the enterprise forward.

Figure 6: Key Partner Selection Criteria for Application Transformation – High-Ranking Executives

Q: If you were looking for a transformation partner, what would be your key partner-selection criteria? [n=202; select top three]
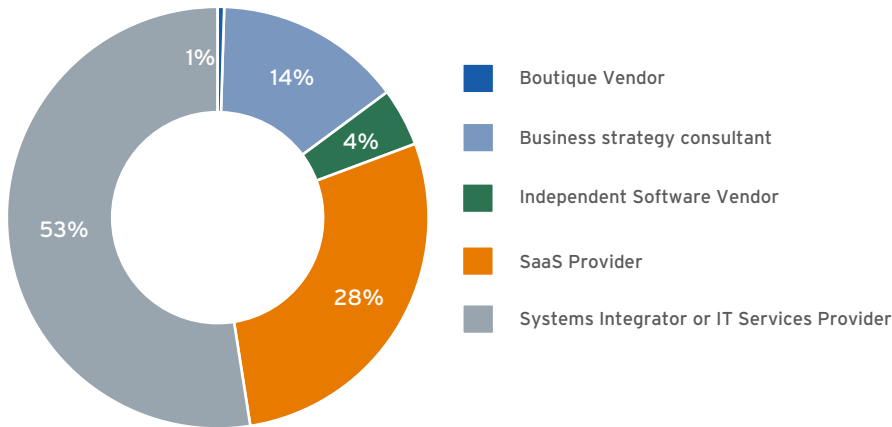

Just over half of respondents rightly believe that they will most likely find the needed mix of skills from systems integrators and IT service providers (see Figure 7). However, 28% think that SaaS vendors make the best transformation partners, and it is certainly true that most digital-transformation projects make good use of SaaS. However, SaaS vendors themselves do not offer integration with existing enterprise systems, nor do they offer solutions to business challenges and needs beyond those provided by their specific products, although they do often play a central role in helping buyers select systems integrator and IT service partners for their projects. SaaS vendors seem to be somewhat more popular with large organizations (more than 5,000 employees).

Despite the strong requirement for strategic advice in modernization projects, only 14% believe that business-strategy consultants would make the best transformation partner, probably because of the need for implementation and delivery support, not just advice.

The choices illustrated in the figure below are fairly consistent across the different job titles – from managers through C-level executives.

Figure 7: Most Suitable Transformation Partners

Q: Where do you think you are most likely to find the best transformation partner to meet your needs? [n=202]

- Boutique Vendor
- Business strategy consultant
- Independent Software Vendor
- SaaS Provider
- Systems Integrator or IT Services Provider

Conclusions

In the application economy, change in virtually every aspect of the business will accelerate. This can include geographies that need to be supported, changing customer demographics and requirements, evolving compliance mandates and so on. Further, this change will often be associated with business demand for more, whether this is support for more transactions, more users, more use cases or more regions.

Digital business transformation requires the engineering of business services that are delivered via applications and, thus, requires an application transformation program. For this reason, applications are fundamental to the strategic evolution of the business. As you seek to achieve your application innovation mandates, you will increasingly need application-focused cloud services to succeed. However, for most enterprises, those services will operate within a hybrid IT environment where existing systems need to adapt to better support digital services. The complexity of providing digital services within a hybrid IT environment means that successful transformation programs require the support of a good partner. Yet the innovations enabled by the cloud are breaking down many of the traditional distinctions that separated competitive categories, leading to a converged market in which a lot of players can deliver a lot of similar offerings. How can organizations find the right partner?

Key Characteristics of an Application Transformation Partner

Organizations should select a partner that meets the following criteria:

A TRUSTED ADVISOR

A transformation project or program is a high-profile venture, and companies need to identify a partner that offers characteristics beyond the classic approved-vendor relationships that are based on managing projects to time and to budget. Companies need realistic and actionable advice, and they want a partner that can provide information and knowledge beyond that required for the technical service capabilities it delivers. This should be demonstrated by references and case studies. A partner should be able to understand what changes can be made in the business quickly today and what needs to be done to plan and implement an end-to-end transformation aligned with the company's business strategy.

AN INNOVATION PARTNER

Because transformation projects usually incorporate advanced technology, companies need partners that will showcase and share new technologies with them and that will provide innovative use cases that can inspire their businesses. This is especially important in defining the 'art of the possible' for delivering the desired outcome.

AN ASSET PROVIDER

In the digital era, changes happen much more quickly, so IT projects to deliver digital services need to be implemented in weeks or months, not years. In order to better support CEO growth agendas, partners must be able to offer a faster time to value than organizations could achieve on their own. In order to do this, they will have proven software assets they can apply to the customer's scenario to get them to the end point more quickly.

A PARTNER THAT CAN GET THE WHOLE JOB DONE QUICKLY ENOUGH

Given the speed, agility and iterative development required for digital-transformation projects, it is generally easier to work with partners that can move through the whole cycle continuously, rather than divide projects up into waterfall-style segments delivered by different vendors. Given the C-suite's focus on time to business outcomes, companies usually prioritize partners that can help them get to the 'to be' state fast enough.

'A SAFE PAIR OF HANDS'

Because customer-facing projects can quickly become the most exposed types of projects when things go wrong, the chosen partner needs to have strong and proven credentials in keeping risk under control, and operate within the customer's parameters.