Unlocking the Economic Impact of Digital Transformation in Asia Pacific

Microsoft Asia Digital Transformation Study 2018

Korea

In partnership with IDC Asia/Pacific
How is an organization being digitally transformed?

How is an organization business model being digitally transformed?
Every company is a software company. You have to start thinking and operating like a digital company. It’s no longer just about procuring one solution and deploying one. It’s not about one simple software solution. It’s really you yourself thinking of your own future as a digital company.

SATYA NADELLA
CEO, MICROSOFT
Unlocking the **Economic Impact** of Digital Transformation in Asia Pacific

- **Digital Transformation** economic impact on countries’ GDP
- **Digital Transformation** economic impact on organization’s business
- What sets Digital Transformation Leaders Apart?
- Digital Transformation Impact on society
Unlocking the **Economic Impact of Digital Transformation in Asia Pacific & Korea**

- Digital Transformation economic impact on GDP
- Digital Transformation economic impact on organization’s business in monetary terms
- What sets Digital Transformation Leaders Apart?
- Digital Transformation Impact on society
Impact on GDP derived from digital products or services created directly through the use of technologies by 2021

Asia Pacific

- 2017: 6%
- 2019F: 25%
- 2021F: 60%

Korea

- 2017: 8%
- 2019F: 33%
- 2021F: 65%
## Digital Transformation Impact on Asia Pacific and Korea's GDP

### Digital Transformation Impact on Asia Pacific GDP (US$ Billion)

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP</th>
<th>GDP Growth</th>
<th>DT Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>24,498</td>
<td>6,685</td>
<td>1,161</td>
</tr>
<tr>
<td>2021</td>
<td>24,498</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- CAGR: 4.9% forecasted growth
- CAGR: 0.8% Digital Transformation will add to GDP

### Digital Transformation Impact on Korea GDP (US$ Billion)

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP</th>
<th>GDP Growth</th>
<th>DT Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>1,411</td>
<td>42</td>
<td></td>
</tr>
<tr>
<td>2021</td>
<td>1,411</td>
<td>217</td>
<td></td>
</tr>
</tbody>
</table>

- CAGR: 0.5% Digital Transformation will add to GDP
- CAGR: 2.9% forecasted growth

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**Legend**

- **GDP**
- **GDP Growth**
- **DT Impact**

Forecast additional GDP contribution by DT based on projected GDP (nominal) growth by the World Bank, forecasted based on revenue growth projections by companies undergoing DT and discounted by percent of companies undergoing DT.
Unlocking the **Economic Impact** of Digital Transformation in Asia Pacific

- Digital Transformation economic impact on GDP
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2 Groups Identified within Digital Transformation Journeys

Base: All respondents (n=1560)
A1. Which of the following best describes your organisation’s digital transformation strategy?
A6. What % of your revenues / fees / incomes / fundings are derived from digital products and/or services?
A5. What are the top 3 benefits that your organisation has observed from their current Digital Transformation initiatives? Please indicate the degree of improvement for these three.
Leaders are ahead in having a **full digital transformation strategy** in place, benefitting from an **ecosystem centric approach**

- Almost half of all Leaders have a full digital transformation strategy in place
- Leaders also benefit from an ecosystem-centric focus on customers, employees and partners

**% of Organizations with Full Digital Transformation Strategy**

<table>
<thead>
<tr>
<th></th>
<th>Leaders</th>
<th>Followers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full</td>
<td>47.6%</td>
<td>17.3%</td>
</tr>
</tbody>
</table>

- A **full strategy** refers to having mature and developed digital processes, people readiness, and support systems in place.
- This enables new & timely ways of engaging with **customers, employees and partners**; enabling continued growth & innovation and ultimately, reap higher benefits as a truly digital organization.

Base: Leaders (n=103), Followers (n=1457).
A1. Which of the following best describes your organization’s digital transformation strategy?
Leaders Capitalize More on **Data**

Leaders place a greater emphasis on data and leveraging it to improve business decision-making, enhance product & services and create new business models.

**Business KPI**
Data as a capital asset for growing revenues, business model and productivity

**Technology Investments**
Big Data Analytics will form the foundation for AI/Cognitive/Robotics implementation

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Base: All respondents (n=1560)

**B11. When measuring overall DT journey success, which of the following key performance indicators/metrics (KPIs) are you using? Please select all that apply.**

**B6. Relating to the use of technology for your DT initiatives, which of the following digital technologies are your organization going to heavily invest on in 2018?**
Leaders Reap the **Highest Digital Transformation Improvements**

- Leaders experience double the benefits of followers, and these improvements will be even more pronounced for leaders by 2020.
Leaders are more concerned about **competitors** and **emerging disruptive technologies**

While all respondents share similar concerns, leaders are more concerned about competition and emerging disruptive technologies.

**KEY DIFFERENCES IN BUSINESS CONCERNS**

- **Emergence of disruptive technologies**
  - Leaders
  - Followers

- **More competitors entering my market**
  - Leaders
  - Followers

Base: Leaders (n=103), Followers (n=1457). Respondent counts vary across all options as this is a top 3 question so not all business concerns are chosen by all respondents.

A2. What are your CEO’s/organization’s top 3 business concerns other than meeting financial goals?
Five Organizational Traits of Digital Transformation Leaders

**CULTURE & CHANGE**

"...are less risk-adverse and characterized by having transient organizations that adapt to changing needs, often automatically and without management intervention."

“They embrace fail/learn-fast approaches.”

**ORGANIZATIONAL BEHAVIOR**

"...display higher maturity in collaboration and agility in change cycle. Instead of focusing on individual efforts, teams self-organize across groups to achieve organizational success.”

**DIGITAL TRANSFORMATION APPROACHES**

"...display higher organization-wide alignment in their DT efforts."

“Their strategies and metrics are interlinked to deliver digital products, services and experiences to customers.”

**LEADERSHIP & STRUCTURE**

"has a key person leading their digital transformation efforts with an independent standalone digital business unit or with digital leads assigned to each LOB and functional groups to drive efforts"

"...have allocated budget for digital transformation as a permanent part of the P&L to maximize resources, ensure organisation-wide alignment and better governance”

**BUDGETS**
Unlocking the **Economic Impact** of Digital Transformation in Korea

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Top 5 benefits in Korea: Improvements now and in three years

- Top 5 benefits of digital transformation contribute significantly to bottom-line in the range of 15% to 18% in 2017.
- By 2020, organizations will see more than 50% improvements tracked in every of the 5 key benefits identified.

1. **% improvement in customer advocacy, loyalty and retention**
   - 2017: 18%
   - 2020: 32%
   - N=34
   - 1.8X

2. **% improvement in profit margin**
   - 2017: 17%
   - 2020: 25%
   - N=26
   - 1.5X

3. **% increased revenues from new products and services**
   - 2017: 17%
   - 2020: 25%
   - N=23
   - 1.5X

4. **% increased revenue from existing products and services**
   - 2017: 18%
   - 2020: 31%
   - N=14
   - 1.7X

5. **% improvement in cost reduction**
   - 2017: 15%
   - 2020: 26%
   - N=15
   - 1.7X

Base: Respondent counts vary across all options as this is a top 3 question so not all benefits are chosen by all respondents.

A5b: Please indicate the degree of improvement from last year.
A5c: Please indicate the expected improvement in 3 years.
Top **Challenges** of Digital Transformation in Korea

1. **#1**
   - Cybersecurity and growing threats

2. **#2**
   - Lack of advanced analytics to develop actionable insights

3. **#3**
   - Lack of knowledge on which technology is appropriate
New **KPIs** to Measure Digital Transformation Performance

Surprisingly, organizations in Korea today are already using non-standard business KPIs to measure digital transformation outcomes.

- **Employee advocacy**: 51%
- **Work and labor supply**: 47%
- **Data as a capital asset**: 46%

Base: All respondents (n=100)

B11. When measuring overall DT journey success, which of the following key performance indicators/metrics (KPIs) are you using? Please select all that apply.
Technology investments for Digital Transformation for 2018

**CORE TECHNOLOGIES**

- Cloud: 17.9%
- Big data analytics: 14.1%
- eCommerce: 13.4%
- Security: 12.1%
- Social media: 11.3%
- Mobility: 4.4%

**EMERGING TECHNOLOGIES**

- AI/ Cognitive/ Robotics: 9.4%
- Internet of Things (IoT): 7.4%
- Mixed, VR, AR: 4.4%
- Next gen interface: 1.5%
- Blockchain: 1.3%

Base: All respondents (n=100)

B6. Relating to the use of technology for your DT initiatives, which of the following digital technologies are your organization going to heavily invest on in 2018?
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Digital Transformation Benefits to Society

Smarter, safer & more efficient cities, improved quality of education through better teaching tools, and the increased opportunities for individuals through better access to education were seen as top 3 benefits.

- **#1** Smarter, safer and more efficient cities
- **#2** Improved quality of education through better teaching tools
- **#3** Increased opportunities for individuals through better access to education and training
Unlocking the **Economic Impact** of Digital Transformation in Asia Pacific

**Recommendations**
How to Become a Digital Transformation Leader?

CREATE A DIGITAL CULTURE
• Address organizational structure shifts required for digital transformation success.
• Have a strategy for data. Begin with the end in mind and include a plan with clear outcomes.
• Encourage the use of data across all work processes and operations within the enterprise.

BUILD A DIGITAL ECOSYSTEM
• Create a digital ecosystem–mindset with data-sharing with partners and third parties.
• Facilitate Data Capitalization across the Enterprise and with Ecosystem partners.

EMBRACE MICRO-REVOLUTIONS
• Focus on small, quick projects that deliver positive business outcomes and accrue to a bigger and bolder digital transformation strategy.
• Enable quick investments and trials in emerging technologies, especially AI.
• Create a balance scorecard that combines standard and new metrics for DT success.

BET BIG ON AI
• Integrate AI into company’s business.
• Identify areas where AI can be used to augment higher-value human activities.
• Establish pilot projects for problems/opportunities you want AI to solve.
• Typical low-hanging fruit/quick win areas includes customer service or employee engagement e.g. chatbots.
Recipe for Digital Transformation in Korea’s Organizations

- **ENGAGE YOUR CUSTOMERS**
  in a personal and relevant way

- **EMPOWER YOUR EMPLOYEES**
  To deliver differentiated service

- **OPTIMIZE YOUR OPERATIONS**
  To evolve forecasting and react faster

- **TRANSFORM YOUR PRODUCTS**
  And deliver new value to customers

**ECOSYSTEM**

**SECURITY**
Our mission

Empower every person and every organization on the planet to achieve more
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