

Prioritizing your digital transformation efforts

Strategies to help you decide where to modernize now—and next.

TRUIST

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What you'll find in this Truist Purple Paper®

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"It's what we thought the future would be like... That future is here."

Michael Nemeroff, Head of Software Investment Banking, Truist Securities

Where is your company in its digital transformation journey?

Odds are you're among the 89% of companies globally that Harvard Business Review says are in the midst of a digital transformation.[1]

Modernizing your operations, processes, and products to keep up with technology that's evolving at lightning speed isn't easy, cheap, or quick. But it is necessary. You can't be competitive in today's market without being technologically up to date.

Digital transformation has been a buzzword for years since companies began automating manual processes and shifting to cloud-based technology platforms. But the pandemic was a wake-up call for many companies that found themselves unprepared for the technological demands of doing business remotely. Since then, the push to digitally transform has taken on a fresh urgency, with global spending on digital transformation projected to reach nearly $3.9 trillion by 2027.[2] And today, it's a nonstop effort as technology—like AI—continues to advance.

"It's what we thought the future would be like 20 or 30 years ago when we watched movies about computers being smart," says Michael Nemeroff, head of Software Investment Banking at Truist Securities. "That future is here."

Harnessing that future to put advanced technology to work for your company is both a challenge and an opportunity—neither of which business leaders can afford to overlook.

"What do CEOs think about when they wake up in the morning and when they go to bed at night?" asks Scott Cathcart, head of Corporate Finance at Truist. "They think about their teammates and about the value of their business. Digital transformation can benefit both—by making teammates' jobs easier and by creating operational efficiencies that drive enterprise value."

Deciding where to go next in your digital transformation journey is the focus of this Truist Purple Paper®. When you have various departments pushing for multiple digital initiatives, how do you determine which efforts get funded first?

We'll examine three factors to help you prioritize your digital transformation—so you can stay ahead of the latest innovations while maintaining an eye on your budget.

Digital transformation: By the numbers

Insights from IT services provider TEKsystems' State of Digital Transformation 2024 report provide an eye-opening look at how businesses are approaching digital transformation today.[3]

Top digital transformation goals for today's businesses

1. Improve customer experience and engagement
2. Replace or upgrade legacy IT systems
3. Reduce operational inefficiency
4. Enhance employee performance and productivity
5. Transform existing business processes
6. Increase innovation
7. Bolster cybersecurity
8. Gain competitive advantage
9. Improve employee experience
10. Increase speed to market of existing products or services
11. Introduce new business models or revenue streams

72%

The report says 72% of companies surveyed expect to increase spending on digital transformation efforts in 2024.

$10M

1 in 3 organizations said they expect to spend on average $10 million or more per digital initiative.

75%

Three-quarters of companies surveyed plan to ramp up AI-related expenditures in 2024.

85%

The majority of respondents said they're confident, very confident, or extremely confident that their digital transformation investments will meet the expected ROI.

Step 1: Evaluating your needs and your legacy systems

Prioritizing where to invest in digital transformation starts with your biggest needs.



Knowing your business's strengths and weak points—and simply looking at the way you do business today—can help you see where to focus your attention next.

"If you haven't updated your enterprise resource planning (ERP) platform in several years, it's likely time to start looking at where you have some opportunities," says Chris Noe, head of Product for Wholesale Payments at Truist. "If you're still writing and receiving a lot of checks, that's also a sign that it's time to look at other solutions."

It's also important to review your financials and compare performance metrics like profits, growth rates, or customer retention rates with your competitors. If you're lagging, it could be time to reevaluate your digital needs.

Your employees may be an invaluable resource in this evaluation process. Members of your sales force and operations teams in particular may have important insights helpful to establishing priorities, since they deal with ERP and other critical platforms every day.

"Companies that are on older technologies are at a big disadvantage. And the longer they wait to change that, the harder it will be."

Michael Nemeroff, Head of Software Corporate and Investment Banking, Truist Securities

Tech moves fast—and so should you.

Prioritizing digital initiatives also means identifying where to address tech debt, which McKinsey calls the "silent killer of technology modernization efforts."[4] The ongoing costs of maintaining older technology can build up over time and eventually affect your ability to implement newer platforms.

"We still come across clients who are using homegrown systems that they've had since they were a much smaller organization," says Andrew Rankin, head of Sales for Specialized Industries at Truist. "They've outgrown their own infrastructure, and in some cases that holds companies back."

Because technology advances so quickly, the longer you wait to replace dated technology, the further behind you'll fall. And that could put your digital transformation objectives in jeopardy.

"It's one of the toughest decisions that businesses today are grappling with," says Nemeroff. "Companies that are on older technologies are at a big disadvantage. And the longer they wait to change that, the harder it will be because of the growing number of components that need to work with that older system."

Think of it in terms of upgrading your phone. The longer you've had your old phone, the more apps, images, files, and other data you'll need to transfer. Rankin says the enormity of changing legacy systems paralyzes some companies, so they keep trying to make older technology work.

"If you do that," says Rankin, "you run the risk of falling further and further behind until—worst case scenario—you're rendered irrelevant."

Legacy systems may come with key person and key channel risk.

When evaluating legacy systems and the effort they'll take to replace, see who on your team knows how the system works—not just how to use it but how it's built and what it needs to run efficiently. Staying on that system could mean becoming dependent on one or a few people to manage it.

"Making a change will become exponentially more painful if the people who understand the legacy platform are no longer there to help bridge the gap between where you were and where you're going," says Rankin.

Business continuity planning (BCP) should also include key channel risk. For example, if you're implementing a new digital payments process, Rankin recommends having multiple entry points with your bank—such as web, mobile, or file transmission.

"The BCP alternative is only viable if it's immediately ready when something goes wrong," says Rankin. "We generally advise clients to keep sending a small percentage of volume through the backup channel on a regular basis."

Look to your revenue producers first.

Migrating from a legacy IT platform to new technology can be a huge undertaking, whether it involves internal or customer-facing processes. When prioritizing where to replace legacy systems, look first at the areas that help grow revenue.

Budget constraints sometimes demand choices, and as in many business decisions, customer needs come first. That doesn't mean internal functions aren't important, but they may have to take a backseat temporarily.

Such choices are part of taking a holistic view of the company's best long-term interests. Still, even when decisions are made thoughtfully and with input, some members of the team may disagree about chosen priorities. Such tensions are to be expected, but they can be addressed with care.

It'll be much easier to get stakeholders on board with your prioritization of legacy system replacements if you can back it up with solid numbers. A positive cost-benefit analysis can be a game changer.

"Say you're generating $50 million a year with a legacy system but your competitors are generating $180 million with a new technology platform," says Albert Zuniga, head of CIB Technology at Truist Securities. "The potential to generate that much more revenue is worth taking the time required to build, integrate, and migrate to a new platform."



6 tech buzzwords to add to your lexicon

1

Big data

The unending volume of data generated in the digital age—through social media, online transactions, and more. Analyzing this data can reveal patterns, trends, and associations that could help you make informed decisions.

2

Cloud computing

The delivery of computing services, such as servers, storage, databases, networking, software, analytics, and intelligence, over the internet.[5] Cloud computing can help lower costs, increase speed, and enhance productivity.

3

Fintech

New technology that's focused on improving and automating the delivery and use of financial services. Among its many uses, it has revolutionized payment processing for businesses of all sizes.

4

Internet of Things

The interconnection of a variety of devices that can exchange data with other devices. It's helping to improve communication and optimize efficiency in various industries, from manufacturing to healthcare.

5

Machine learning

A subset of artificial intelligence, this technology uses algorithms and statistical models to analyze and draw inferences from patterns in data—resulting in computer systems that can learn and adapt without following explicit instructions.

6

Vaporware

Technology solutions that are announced to a lot of fanfare but haven't actually been used or tested yet. They're often still in the development phase, and many never make it to launch. Make sure the hardware or software you choose to implement has tangible case studies to back it up.

Step 2: Using ROI to plan your digital transformation journey

Ranking your digital transformation efforts by their expected return on investment (ROI) will help you choose which ones to prioritize. But measuring that value often isn't easy.



In a study by Deloitte, 68% of respondents said digital transformation was the single most important investment they could make to drive enterprise value. But 73% said they struggled to define the metrics to accurately assess the performance of each initiative.[6]

Your company's best metrics will depend on the outcomes you want. Start by analyzing what you hope to achieve through digital solutions. That could include:

- Increasing operational efficiency
- Streamlining payments to improve the cash conversion cycle
- Minimizing operational risk by reducing human error
- Enhancing customer service
- Increasing market share
- Boosting your reputation as a forward-thinking company

"If you ground yourself in the goals you're attempting to achieve, that will help you navigate through all the noise."

Chris Noe, Head of Product for Wholesale Payments



Think big. Start small. Learn fast.

That's the mantra Greg Hansen, head of Wholesale Digital at Truist, reiterates to the clients he advises in the digital payment space. It's all about visualizing the outcome you want to achieve and determining which solutions and steps will help you get there.

"Think big about where you want to go," says Hansen. "But then start small and show success early that you can learn from and build on."

Imagine you want to reduce inbound customer call volumes. You could start by implementing one small change: creating a self-serve interface for clients.

"You can roll that out to a small client base and see if it moves the needle on operational efficiency," says Hansen. "Then, you can take what you've learned to the next phase of implementation. I've seen clients have more success this way rather than jumping headfirst into a multimillion-dollar initiative."

Focusing on the outcome first and then approaching that goal in smaller steps can also keep you from getting distracted by the many tech tools vying for your attention.

"If you ground yourself in the goals you're attempting to achieve," adds Noe, "that will help you navigate through all the noise."

Balance short- and long-term goals.

Prioritizing projects—rather than tackling several at one time—prevents your efforts and finances from being spread too thin. That often means balancing what you need now versus what will help you meet long-term goals.

That's sometimes easier said than done, particularly for public companies that may face pressure from shareholders to move quickly on projects that could boost the stock price in the near term. Private companies may have the luxury to be strategic in their priorities without that pressure, but in any case, long-term goals need to be part of the planning.

Hansen emphasizes that early successes can demonstrate how you're meeting short-term goals while showing progress toward long-term objectives. Demonstrating both helps your entire team—including shareholders and investors—support the project.

"It goes back to being able to show quick wins or you're going to lose the audience, so to speak," says Hansen. "And it's not just getting it done, but getting it done in a way that actually moves one of those needles that impacts the outcome you're driving toward."

Learn from your competitors.

Once you've chosen a desired outcome, looking at the paths other companies have taken could spark ideas for deciding how to get there. Your Truist banker can help by sharing observations from clients in similar industries or stages of the business lifecycle.

"As we're looking at ROI and trying to understand the success factors for what a client is trying to achieve, we help make sure what they're targeting is realistic and aligned with what others in the market have seen," says Noe.

Asking a few questions will help you see how your company compares to what's considered "best in class" in your industry:

- What was that business looking to accomplish or what challenge were they solving? How does that compare to my objectives?
- What systems do they have that I don't have?
- What successes and challenges did they encounter?
- How does their company's size and sector compare to mine?

"Every company is going to be different when it comes to sizing up the opportunities," says Noe. "But just understanding the benefits—and challenges—others have seen can help narrow down next steps."

3 things to keep on your radar

1

Embedded finance for managing cash flow

While embedded finance isn't new, the technology behind it is advancing quickly and adoption is skyrocketing. It allows nonfinancial businesses to merge financial services with their own platforms so they can lend, accept payments, and even offer insurance through their website or app.

"Embedded finance touches nearly all industries, and one of its biggest advantages is access to data around who you're paying and who's paying you," says Rankin. "If I'm empowered with better data, I can apply payments with pinpoint accuracy. That positively impacts the cash conversion cycle and creates free cash flow that goes straight to my bottom line."

2

Generative AI for customer experience

Once the stuff of science fiction, AI is a reality—and it keeps getting smarter. Intelligent computer systems that can mimic human cognitive functions—from facial recognition to digital assistants—are popping up in just about every facet of life.

Auto dealerships are among the latest businesses to use AI to enhance customer service. "STELLA Automotive AI is an innovation we're really excited about," says Jason Smith, head of Truist Dealer Commercial Services. "It helps auto dealers deliver an amazing customer experience while streamlining their operations by handling phone calls that dealers have struggled to hire and retain staff to answer. It's a huge step forward for dealers looking to build stronger customer relationships."

3

RPA for operational efficiency

Updating your ERP and seamlessly integrating all your technology requires a deep well of IT resources. If you're prioritizing digital initiatives but aren't ready for a full-scale overhaul, then robotic process automation (RPA) could provide a short-term solution.

"RPA uses programmable bots that anyone—even those who aren't computer programmers—can set up to do repeatable tasks like filling out forms or merging data from multiple sources," says Hansen. "I remember talking to clients about RPA bots five years ago, and their heads would spin. Today, about 80% of the clients I talk to are using RPA bots in different ways to start down that path of digital transformation."

Step 3: Understanding how timing affects implementation

Implementing a new digital platform can be a yearslong process. And once you've met your initial goals, you'll likely continue to upgrade and tweak your solutions as technologies evolve.



Factoring in the time commitment of new digital initiatives is an important part of prioritizing your efforts. A major project may take you away from other aspects of the business, at least temporarily.

"There's significant risk in making meaningful changes," says Cathcart. "You need to have a very thorough, robust, well laid-out plan with methodical approaches to how you're going to implement that digitization."

Part of that is knowing upfront how long the project is likely to take. Rankin says that when he and his team deliver digital tools to clients, communicating the timing and the level of resources needed for the project to proceed is the top priority.

"I tell them, 'This is what we're doing, this is what it does, this is the value it adds, and this is how long it's going to take,'" says Rankin. "Those things should be nailed down weeks, maybe months, before you start building anything."

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Scott Cathcart, Head of Corporate Finance

Build in extra time.

Once you estimate how long a project will take, factor it into your business plan. Make sure that the timing won't interfere with other planned priorities, and pad any timing estimate to account for delays, due diligence, and training.

When it comes to due diligence, Cathcart says just because a tech platform works for another business, you can't assume it will work for you, too.

"That's an unnecessary spider's web you don't want to get stuck in," he says. "Think of it like making an acquisition. You would likely spend months conducting due diligence on a company you're looking to buy. The same should go for investments you make in digital platforms."

Cathcart also recommends building a plan for training employees to use the new system long before it's in place.

"There should be obvious training programs in place from day one—actually day negative 100," says Cathcart. "The team needs to have full adoption to be bought into it."

Push for a transformation culture early on.

Digital transformation can happen at any time in a business's lifecycle. But Truist professionals agree that starting as early as possible will drive value for your company in the long term.

"A digital transformation is going to cause much more disruption for an established company that has a lot of tech debt built up," says Cathcart. "In the early stages, you won't have as much money to invest. But if you cement that culture of digital investing early, that's going to perpetuate throughout all the stages of business."

The growth stage can also drive the need for more technology, says Rankin. "The companies and the industries that are experiencing the most growth are typically looking for ways that they can become the most efficient."

No matter what stage your business is in, one thing is certain: Digital transformation is not a finite project. As technology continues to advance, companies need to be continually assessing and updating their systems in order to stay competitive.

"When you decide to digitally transform, you're committing to staying current with technology rather than staying in the past," says Nemeroff. "It's never-ending."



3 common challenges of digital transformation

1

Human impact and change management

You can't understate the importance of ensuring that your entire team is on board with implementing new systems. Hansen says he's seen digital initiatives struggle and nearly fail because team members undermine the efforts.

"In one case, an accounts payable manager was worried that automating payments would lead to people on her team being let go," says Hansen. "Once she was assured that team members would be deployed to other, more strategic work, the process went much more smoothly. It's so important to have those conversations at the beginning of the project."

The key: Be open, be honest, and work to build a forward-focused culture from the top down.

2

Fostering a process-engineering mindset

Digital transformation isn't just about automating legacy paper processes. Ideally, you want to rethink how you approach certain tasks and how you can reengineer them to happen more efficiently and consistently.

"Ask yourself what problem you're trying to solve, and then think through new ways of getting there," says Hansen. "You also need to understand the risks and controls that should be in place to manage potential failure points along the way. That's what it means to have a process-engineering mindset."

The key: As you're analyzing digital initiatives, challenge your IT team to think about solutions with a process mentality. And build in time to providethe upskilling to help them get there.

3

System integration

Finding the right tools to achieve your digital transformation goals is usually the easy part. The hard part is making sure they work with your existing tech platforms. It's especially important when merging two companies and when implementing embedded finance tools.

"To get some of the latest functionality, a lot of companies need to invest in upgrading their ERP systems," says Rankin. "We can't just go out and say, 'Every client gets this new suite of embedded finance solutions.' They have to be able to receive it, and they have to have the right technological infrastructure."

The key: If you haven't updated your ERP system in several years, investigate how it can integrate with any digital tools you want to use as early as possible.

How Truist can help

As you continue your digital transformation journey, it's important to remember that it shouldn't be a solo undertaking.

"You may not have the ability to invest in a CTO or a CIO, but you definitely have the ability to find a friendly board of advisors," says Cathcart. "They may not be the final decision makers, but they can be leaders who've been down this road before and can help you navigate it."

Your Truist banker can play a key role in your board of trusted advisors. They can help you not only by sharing insights from experiences with peers in your industry, but also by helping you map out your digital strategy.

"You've got to start first and foremost with the objectives and outcomes that you're trying to achieve," says Noe. "Consulting with an expert at Truist to understand best practices is a phenomenal way to do that."

Contact Truist for advice tailored to your business, and explore the links below for additional insights.



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Meet our team

These Truist team members contributed their experience and knowledge to the creation of this paper. We encourage you to contact them individually if you have questions or insights to share.



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End notes

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