



## Executive Insights

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# Digital for Industrials: Laying the Groundwork for Success

## Part 1 in a Series on Industrial Digital Transformation

For industrial firms, the stakes for success with digital are undeniably high. Digital transformations can be costly and resource draining as well as require significant change-management efforts in order to capture any benefit. However, industrial firms that have had success with digital are reaching new levels of production efficiency, lowering the cost of maintenance or unplanned downtime, and finding new, profitable ways to engage and serve customers.

Given the many potential benefits and competitive advantages that digital can provide, industrial firms find themselves in a race to build new capabilities and establish digital leadership. In a recent L.E.K. Consulting survey of U.S. industrial managers, ~78% of respondents indicated that their company was accelerating investments in digital, highlighting the urgency with which most firms are treating the topic.

Meanwhile, firms face a number of significant hurdles related to their digital ventures, from the challenges of organizational realignment and incentivization to the struggles of building the proper data and information technology (IT) infrastructure to support a digital product (see Figure 1). Fundamentally, most face

the challenge of defining an overarching digital strategy, assessing its value and determining which investments to prioritize.

### L.E.K. global study on industrial digital success factors

We recently conducted a global study to identify the factors that drive digital success for industrial firms. Our goal was to assess companies' progress relative to that of peers in the industrial sector and to understand what strategic choices and digital investments appear to differentiate top performers from those that are struggling to make progress.

We surveyed and spoke with nearly 600 senior executives with digital responsibilities across corporate leadership, sales, operations and technology. Collectively, these inputs represent perspectives across all sectors of the industrial economy, all regions of the globe and the entire value chain.

In our study, we examined the priorities, behaviors and investments of these industrial firms across three key themes:

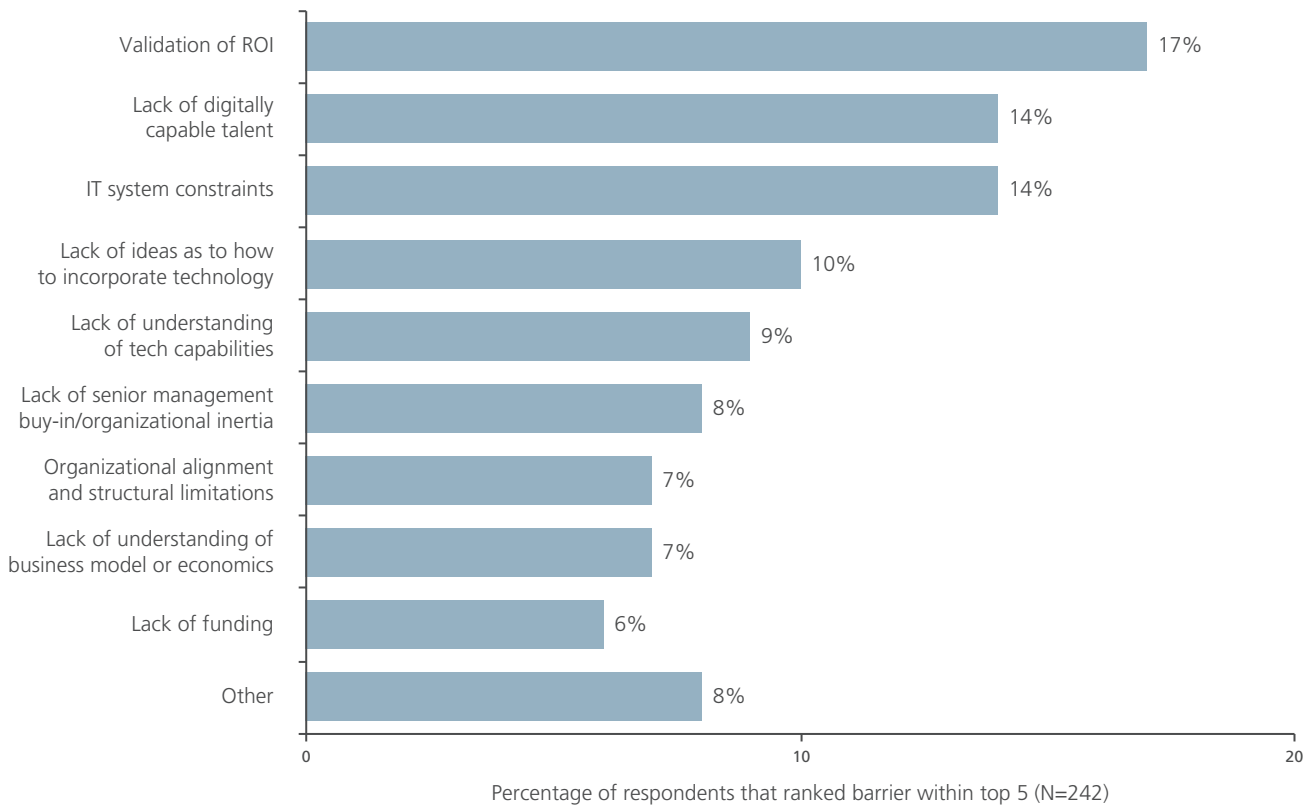
- The clarity of *Digital Vision and Strategy* in the organization
- The *Digital Foundations* built to provide underlying support to all digital investments undertaken
- The *Digital Pillars* that are the offerings, tools and technologies, and ways of working that the company activates to implement its digital strategy

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*Digital for Industrials: Laying the Groundwork for Success* was written by **Darren Perry** and **Tom Diplock**, Partners, and **Tom Marshall**, Principal, in L.E.K. Consulting's Industrial Digital practice. Darren is based in Boston; Tom Diplock and Tom Marshall are based in London.

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Figure 1  
Top barriers to digital capabilities/technology adoption among industrial firms\*



\*Survey question: What are the top five barriers to your organization's adoption of digital capabilities/technology across its operations?  
Source: L.E.K. survey, research and analysis

We assessed the success of digital efforts by measuring tangible business outcomes related to the *Digital Pillars*. We examined whether new *Digital Offerings* had led to incremental revenue or product market share; whether the *Digital Customer Experience* had increased customer engagement measures such as lead generation, sales conversion and Net Promoter Score; whether *Industrial Technology (Industry 4.0)* had increased production and supply chain efficiency; and whether *Digital Ways of Working* had led to higher internal team productivity, efficiency and collaboration.

Linking digital efforts to tangible business outcomes allowed us to assess the overall digital maturity of the industrial sector and to identify firms that have been demonstrably more successful than others. It also enabled us to analyze which specific capabilities, decisions and investments are most strongly correlated with digital success.

Together, this proprietary framework and benchmark dataset — Industrial Digital Enterprise Assessment (IDEA) — offer a valuable tool that we use with industrial clients to measure, diagnose and accelerate their digital progress (see Figure 2).

### Laying the cornerstone for digital success

The study's findings shed light on a subset of *Digital Leaders* and allow us to understand what these firms have done differently to obtain a higher level of success versus *Digital Adopters*, who are still climbing the maturity curve, and *Digital Followers*, who are in the early stages of the digital journey (see Figure 3).

Out of 100+ capabilities, decisions and investments that a firm could make with respect to its digital transformation, we identified seven key success factors that are most responsible for a firm's overall success with its digital initiatives. We view three of these factors as fundamental elements that are critical for establishing a successful digital program and in which ~81% of

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*Digital Adopters* and *Digital Leaders* claim maturity. The remaining four factors represent a set of more advanced capabilities that separate *Digital Leaders* from the rest of the pack.

## Three fundamental elements for digital success

### 1. Developing a digital roadmap and governance structure

~98% of *Digital Leaders* and ~69% of *Digital Adopters* claim maturity versus only ~20% of *Digital Followers*

A strong digital strategy must be supported by a clear roadmap for change and by accountability structures that can advance the strategy and be flexible when circumstances inevitably evolve. Firms engaging in digital change can and do make the mistake of premature investment before laying out a clear roadmap and governance structure, leading to misdirected or wasted efforts.

One of the first steps that industrial firms that are successful in their digital transformations undertake is to identify and prioritize where investments in digital can be most supportive of the firm's strategic objectives and then define a clear set of desired business outcomes for those investments.

From there, successful firms develop a clear transformation roadmap that considers a portfolio approach to balance near-term and longer-term project investments and benefits; the project-sequencing implications of key data and other technical dependencies; and the pace at which the organization will be able to execute. To make this happen, firms must establish clear governance and a supporting organizational structure for digital that combines strategic leadership and clear ownership, a common vision, a critical mass of digital skills, and connection throughout the organization.

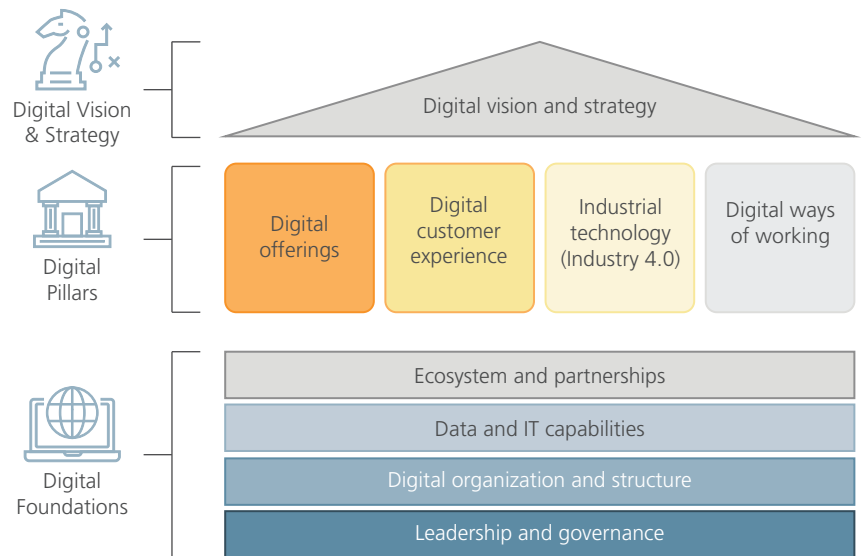
### 2. Cultivating and motivating talent to execute the strategy

~98% of *Digital Leaders* and ~68% of *Digital Adopters* claim maturity versus only ~22% of *Digital Followers*

Digitally conversant and motivated talent unlocks successful execution of a digital strategy. Access to the right talent can mean the difference between accelerated and sustained progress and failure to achieve desired results.

Successful firms often elect to hire or cultivate a new team of digital-specific leaders who are given a clear mandate to drive

Figure 2  
IDEA framework



Source: L.E.K. research and analysis

action from the C-suite down to individual projects. These leaders are set apart by their ability to identify attractive digital opportunities, build (and often sell) digital solutions effectively and be the champions motivating others around a new way of doing business.

### 3. Developing a robust technology infrastructure and data strategy

~99% of *Digital Leaders* and ~80% of *Digital Adopters* claim maturity versus only ~49% of *Digital Followers*

Achieving a digital vision requires a robust technology infrastructure — spanning both IT and operational technology (OT) — and an effective data strategy. Often, as a result of disjointed prior investments, firms are burdened with disparate systems, siloed data sources, and custom-built and expensive platforms that become even more complex and expensive as they are stretched to support the evolving digital agenda.

A first step that industrial firms must take is to engage in a realistic assessment of their technology and data platform and its ability to support the long-term digital vision. In certain cases, this may reveal that a substantial overhaul of legacy systems is required. More often, however, meaningful progress can be made at far lower cost and lower risk by developing a “single view” of critical data assets and using new analytical capabilities to extract insight from the data.

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## Four elements that distinguish digital leaders

### 1. Embracing digital business models

~96% of Digital Leaders claim maturity versus only ~55% of Digital Adopters

Digital Leaders are open minded when it comes to identifying ways to create value. They are willing to look beyond their immediate sectors for inspiration and embrace new digital business models where appropriate (e.g., finding ways to enhance legacy products with digital solutions such as preventive maintenance analytics, developing and monetizing data services).

One of the ways that successful firms maintain momentum is by conducting regular benchmarking efforts that include not only their direct competitors but also leaders outside their own sector (e.g., in technology and retail). As B2C digital experiences increasingly influence expectations for B2B services and transactions, digital innovations made in other industries

can provide not only fresh ideas but also insight into customers' changing expectations for digital engagement.

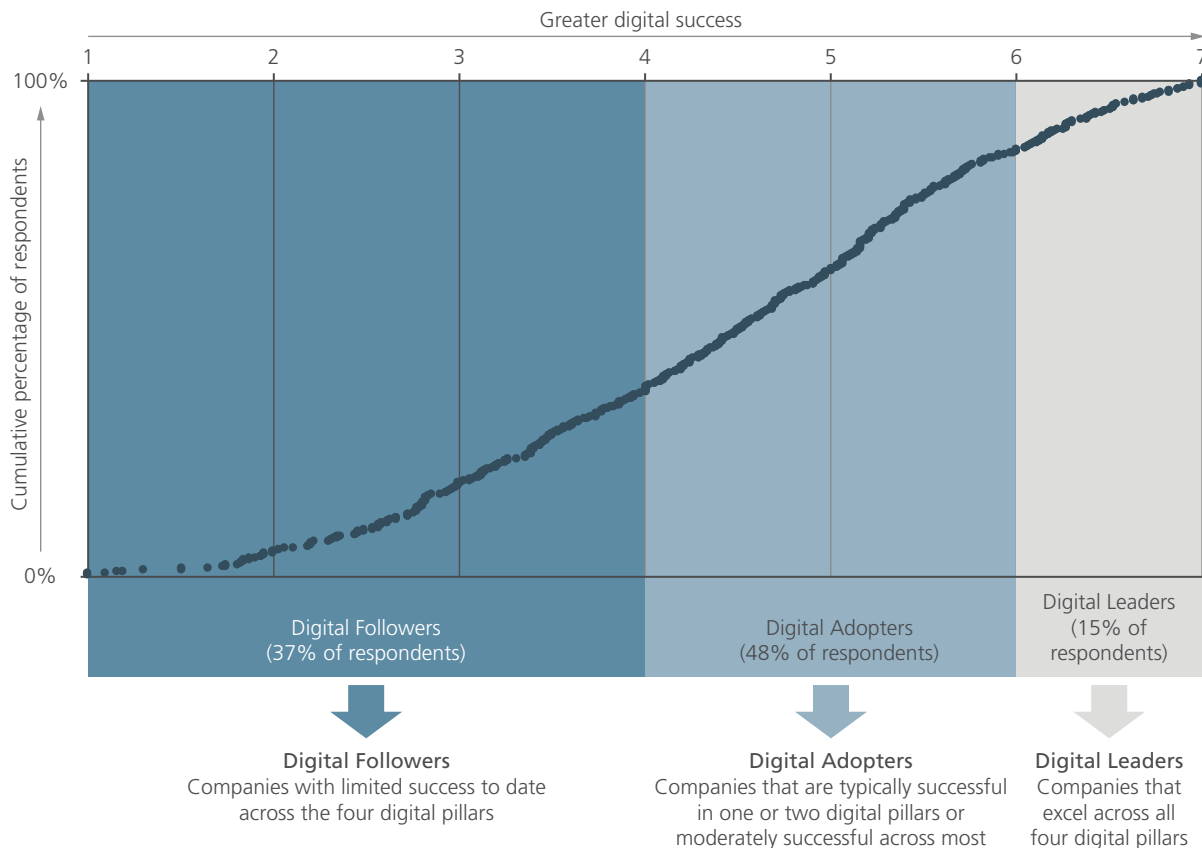
In addition, Digital Leaders are often obsessive about capturing and integrating data about customer and supplier choices and actions, using both internal and external data sources. Insights from these data sources can unlock opportunities to drive greater integration across the value chain (which can lower supply chain costs or drive greater customer loyalty).

### 2. Embedding organizational agility and a "fail fast" mentality

~96% of Digital Leaders claim maturity versus only ~60% of Digital Adopters

Digital Leaders have revolutionized many of their internal working models in a profound way — by rethinking traditional ways of working to develop and support a culture of innovation. Similar to firms that have instituted a culture of continuous

Figure 3  
Distribution of average digital success scores by survey segment (N=561)



Source: L.E.K. 2020 Global Industrial Digital Enterprise Assessment Survey

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improvement, *Digital Leaders* have found ways to engage all aspects of the business to uncover digital opportunities for value creation. In addition, many firms have found that a centralized digital function or center of excellence can create the critical mass of talent and ideas necessary to accelerate innovation.

*Digital Leaders* also create a process to cultivate an internal pipeline of ideas, and then develop and articulate clear project evaluation processes that allow for small tests, pilots and iteration that encourage out-of-the-box thinking, agility, and controlled or useful failures. Furthermore, successful firms often find ways to insulate these processes from traditional firm bureaucracy, as long-standing investment criteria, metrics and decision-making processes are often ill suited for new digital business models and small-bet experimentation.

### 3. Focusing on a small set of digital performance metrics

~95% of *Digital Leaders* claim maturity versus only ~62% of *Digital Adopters*

With new digital objectives must come new digital performance metrics, which are often different from those traditionally used to run industrial businesses. Careful thought about what will be measured, and how, is key to holding leaders accountable for delivering on the digital strategy and to ensuring it is not just paid lip service.

Successful firms identify business objectives for their digital initiatives, translate this into a set of digitally appropriate key performance indicators, develop the system to measure and track them — often through a specific profit and loss — and relentlessly focus on measurement and execution.

### 4. Promoting a “commercial-digital” mindset

~96% of *Digital Leaders* claim maturity versus only ~64% of *Digital Adopters*

*Digital Leaders* anchor themselves in an understanding of customer needs and a perspective on the economic value of

digital opportunities. While this often requires more work and investment than does focusing on what is easiest to build with today's resources, early strategic thinking guarantees that effort is not wasted building the wrong products and services — those that do not address customer needs.

One step that *Digital Leaders* undertake is to develop a deep understanding of the engagement life cycle through the eyes of their customers, recognize key points of friction and failure along the journey, and identify those that are profitable opportunities to better serve their customers using digital tools.

### Conclusion

Industrial firms at all stages of the digital progress curve have opportunities to accelerate success with their digital strategies. For those early in the digital journey, progress often begins by assembling a team with a clear mandate to set the digital strategy and by undertaking a pragmatic digital roadmap exercise to evaluate existing technology and data capabilities versus future needs. For adopters on the path to digital transformation, opportunities likely exist to look externally (often beyond a firm's given sector) for digital inspiration, and embed and support a culture of digital innovation.

Digital is an evolution and not an end state. Leaders in industrial digital can continue to push the envelope in a variety of ways, one of which is the exploration of new business models made possible by unlocking the value of their underlying data assets.

**How does your firm's approach stack up against these core tenets of digital success?** Get your personalized scorecard with L.E.K.'s [IDEA tool](#) — which benchmarks your digital readiness against that of organizations in your specific sector and in a similar position to yours on the value chain.

## About the Authors



Darren Perry is a Managing Director and Partner in L.E.K. Consulting's Boston office. Darren works with clients to identify and assess growth opportunities, construct

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## About L.E.K. Consulting

L.E.K. Consulting is a global management consulting firm that uses deep industry expertise and rigorous analysis to help business leaders achieve practical results with real impact. We are uncompromising in our approach to helping clients consistently make better decisions, deliver improved business performance and create greater shareholder returns. The firm advises and supports global companies that are leaders in their industries — including the largest private- and public-sector organizations, private equity firms, and emerging entrepreneurial businesses. Founded in 1983, L.E.K. employs more than 1,600 professionals across the Americas, Asia-Pacific and Europe. For more information, go to [www.lek.com](http://www.lek.com).