

# Business Transformation Forecast | 2022

Maximizing the Impact of Business Transformation Investments in the New Normal

BUSINESS TRANSFORMATION | WHITE PAPER

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## OVERVIEW

Prior to the COVID-19 outbreak, CEOs and other executives across industries were used to a steady increase in budgets since technology innovated their business strategies, processes, and implementation. With COVID-19, executive leadership approach to business transformation and investment decisions have seen a dramatic change.

In this 2022 issue of Tip of the Spear Ventures' Business Transformation Leadership Study, we explore the broad trends in spending on business transformation using data from our Leadership Study conducted by our consulting firm, The Zeroing Agency. We look at the long- and short-term impact of COVID-19's and COVID-19 legislation on business transformation budgets and investment as well as what the habits of spending are for leaders, businesses who are technologically superior than their competitors. We also rethink traditional spending patterns for business transformation and capital allocation.

### Pandemic Recalibrates the Business Transformation Spend

The 2021 Leadership Study that we conducted at our business transformation consultancy – The Zeroing Agency – set out to analyze the changes in organizations and their functions in business transformation and the role played by leaders. The data from the survey shows in the period between 2016 through 2020, over half of respondents (58%) reported an increase in their budgets year-over-year, whereas for the rest (42%), budgets remained steady. We did collect our 2020 data prior to COVID-19, which caused an unprecedented economic and humanitarian catastrophe that had an immediate and profound impact on both short- and long-term business plans.

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*A comprehensive analysis of capital allocation on business transformation spending in the pandemic and the long-term consequences.*

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Many CEOs and executives required deep budget cuts be put in place as a result of the pandemic, particularly those in non-essential sectors where stay-at home was a requirement that required only limited physical interaction – Industries such as hospitality, travel, food and beverage services, sports, retail and entertainment. However, understanding the impact of COVID-19 on business transformation spending is a matter of nuance. While companies saw significant reductions in nearly every sector, we found an increase or decrease in budgets for business transformation across the board in most companies surveyed. Several executives reported that the epidemic provided an opportunity to swiftly re-calibrate investment in business transformation and in many cases hasten investment plans already in place. "Among the most intriguing features of COVID-19 incident is that for many businesses the epidemic served as a catalyst rather than an obstruction" said a General Manager and VP of Sales. They went on to share, "Whether we were creating digital business transformations, introducing new change models to the workforce, or updating customer interaction technology, we set out to take advantage of the situation to make things better. We wanted to move to a more secure and more comfortable normal faster."

For example, think about some of the ways business transformation-related spending has changed as a result of the pandemic:

**Work from Home (WFH).** To support the rapid transformation towards a distributed workforce, leaders have bolstered their infrastructures for technology and rolled out business transformation tools that remotely and securely connect individuals, allowing for greater collaboration.

**The Digital Economy Explosion.** In response to shifts in consumer habits caused by orders made at home, many Chief Revenue Officers (CROs) and Chief Marketing Officers (CMOs) stepped up their efforts on the digital frontier that drives the growth of e-commerce, telehealth, online education, mobile payment as well as other consumer online developments.

**Supply Chain Strain.** COVID-19 exposed major supply chain deficiencies, including fluctuations in demand and surges, reduced productivity, shortages of raw materials, as well as storage and handling problems. The COVID-19 pandemic became a ground-zero trigger for the introduction of flexible analytical and management solutions to better manage supplies.

**Automatization.** The need to provide safety – for both customers and employees – provided unpredicted workforce shortages, requiring companies to seek out opportunities to automate processes and decrease their human factor with robots frequently taking on work which humans did not want to or were unable to perform. Although many organizations had already begun to improve efficiency and speed to market by investing heavily in automation -- particularly robot processes automation (RPA) -- the pandemic increased the amount of money invested in these projects.

### Where Organizational Spend Did/Didn't Go

The percentage of business transformation budgets as percent of revenue is a useful indicator for comparing the industry's spending habits. Prior to the outbreak, we saw companies planning to boost their spending on business transformation by an average of 4.25% of their revenue. However, the amounts differed widely across industries, ranging from just 2% up to more than 10%.

Additionally, numerous CEOs and leaders were expecting to invest in people, processes, and technologies that would create tangible business value through growth and technological innovation. In the end, respondents said they invested 15% of their budgets in business-related innovation. However, they primarily spent budget dollars (59 percent) on day-to-day business activities. There were some noticeable variations in the way that industries have invested in technology prior to COVID-19 as well as telecommunications, technology, travel, media, hospitality, and professional business services at the top of the list for the investment in innovation.

We anticipate the innovation budgets of the hardest hit sectors and industries to be increased significantly in 2022, which will force these organizations to not stay put and attempt to endure the storm. For instance, in some Technology Hardware organizations, we expect that these companies aren't fully recovering from the impact of COVID-19 over this period of time. Similar to the medium- and short-term outlook for the other sectors that, in the year 2020, suffered an

incredibly double blow from COVID-19 and a decline in demand. The likely result will be a sector that will remain challenging. However, for the vast majority of sectors where we are expecting investment in innovation and business transformation will return to pre-pandemic levels in 2022.

### The Spending Habits of Business Transformation Vanguard

The 2022 Business Transformation Leadership Study identified a small subset of companies which were more advanced than their competitors in the fields of strategy and vision, the maturity of business transformation functions, as well as market leadership. We observed that these advanced organizations, we call Business Transformation Vanguard, plan to expand their innovative thinking to business transformation planning and investing strategies

For instance, Business Transformation Vanguard invest more of their revenues on business transformation (4.8 percent) than the baseline companies (4.2%). In addition, they are more than twice more likely (24% versus 11%) to expect significant increase on their business transformation budgets compared to the prior year. It's not always the case that more spending means greater value, but the Business Transformation Vanguard certainly allocate their budgets for business transformation differently. It was interesting to find how Business Transformation Vanguard are evenly distributed across different industries and comprised about 10% of the total population.

Overall, although the baseline organizations were more likely to prioritize efficiency and cost initiatives while Business Transformation Vanguard were much more likely to focus on growth, innovation, as well as customers. Business Transformation Vanguard focus on growth will drive them to invest in the near future (0 to 12 months), something that is expected to continue when the economy eventually regains its footing. Due to the strategic significance of growth and innovation to the entire enterprise, the Business Transformation Vanguard typically invest more of their budget for business transformation (20%) than the baseline companies (15%). These top organizations plan to significantly increase their investment in innovation over the next three years, up to 30%, in comparison to 23% in baseline companies.

An earlier study showed that Business Transformation Vanguard are more likely than traditional organizations to invest significant amounts on transformation technology, like Enterprise Resource Planning (ERP) platforms or other fundamental technologies. To us, this suggests that the Business Transformation Vanguard's capability to manage between the "innovate" as well as "operate" aspects of their business transformation investment better.

In our consulting, we have found that Business Transformation Vanguard are more likely than their non-business transformation counterparts to concentrate on business agility and organizational collaboration. The majority of Business Transformation Vanguard claim that their companies are moving to an operating model based on product and taking an agile view of technology and business, in contrast to just 14% of traditional organizations. Their approaches to business transformation budgeting, investing and monitoring are adaptable and iterative, allowing them to shift investments and pivot swiftly while providing constant value.

Traditional business transformation budgeting, funding and investment procedures -- such as specific budgets for functions, long-term funding cycles, as well as traditional procurement and management of vendors practices -- are in conflict with concepts like organization agility, multi-functional teams, iterative sprints, and other innovative ways of working. Short-term, value-based investment and funding models that roll over time are a great way to shift resources from business transformation to allow for what we consider to be smart "*fast mistakes*" to spur innovation and assist the rapid evolution of business and economic environment.

No matter if they manage a tech hardware or software company, CEOs will confront rapid changes in economic business as well as geopolitical contexts. This will result in a need to discover new ways to rapidly shift transformation initiatives around and prioritize investments. As we anticipate investments in business transformation to continue to increase in frequency as the pandemic slows down (hopefully) and business transformation executives are able to take on more responsibilities. This may cause these leaders to have to reconsider traditional investing practices.

## Rethinking Investment Practices in Business Transformation

Traditional practices for investing in business transformation may result in investment strategies that are siloed, rigid, and obscure (Are any of these good? We would argue that they are not!) To maximize the return on business transformation investments, the practices in budget management, accountability in capital allocation, and benchmarks need to be adjusted.

**Budgeting and Agile Planning.** The arduous planning process, the in-depth forecasts, accounting for customer preferences, as well as detailed task lists that have strict deadlines along with requirements gathering, development of solutions, and testing can delay the deployment of a business transformation initiative for weeks, months, or years. Our experience reflects that the longer the delay in launching a business transformation initiative and the inherent scope of the project, unfortunately the world may have changed and moved on! Think of it, the business could be facing new challenges due to the ever-evolving preferences of its customers or changes in market demand. The Business Transformation Vanguarders we mentioned earlier are able to play the same game but with a different set of rules.

For many of the business transformation pioneers, rapid prototyping, designing, testing and iterative development are becoming typical. The delivery teams of their business transformation – which include upstream and downstream of the change – will want to speed up the process between idea and implementation and deliver the business transformation solution in a gradual manner so as to swiftly adjust course based upon feedback from customers in the way the solution is used.

Innovative business transformation leaders are changing their investment strategies to provide more control to their teams that are cross-functional, allowing them to increase the return on investments (ROI) in business transformation and hold those leaders accountable to delivering the value. They also are more active in monitoring, course correcting, and budget reallocation among a range of different options identified.

**Co-Responsibility and Ownership.** Historically, the success or failure of business transformation implementation hung entirely on the shoulders of the CEO and the leadership team. But we have seen that as companies move from siloed initiatives with functional oversight to cross-functional business solutions, the success or failure of business transformation projects are shared by all – Interesting to keep an eye on is the old-adage that “When everyone is responsible, no one is responsible!”

For instance, the Chief Revenue Officer (CRO) and soon to be CEO of a large technology software firm encouraged shared accountability and ownership for their business transformation by giving "unlimited capabilities" to their business executives. Every product in development was supported by a collaborative team of both business transformation and subject matter experts (SMEs) who are not just for constructing the solution, but also for providing value. Business transformation leaders are responsible for managing the investments made and the results they provide. Bonuses, incentives and rewards are based on the results, not keeping on budget and meeting specific deadlines. The successful implementation of this business transformation strategy requires the company build up their transformation competencies – primarily agility – and an ecosystem of external strategic partners who are able to adapt on demand. It is the business transformation leader who is accountable for a budget segment referred to as "transform for business transformation" which are investments in productivity and collaboration tools, as well as other common enterprise infrastructure. In the wake of these guidelines the business transformation leaders are less likely to create or purchase previously identified solutions.

**Business Transformation Investments that are Deliberate.** The pandemic is increasing demand for business transformation services as 59% of those businesses surveyed anticipate that business transformation usage will exceed budgets because of COVID-19. We predict that revenue growth will surpass previous years as a result. Business transformation adoption could aid companies in achieving significant savings in costs, however only if their leadership is able to gain visibility of business transformation usage throughout their company and offer ongoing supervision and adjustments to manage expenses, monitor workloads and make sure benefit realization occurs. Simply promoting the business transformation first approach can increase costs, reduce the value of services, and result in an uncontrolled use of resources - orphaned or owned. Large-scale infrastructure design as well as redundant business transformation methodologies complicate architectures and ensuing implementation attempts especially due to the large quantity of leaders/team members working from home (See previous section). In comparison, on-premise business transformation deployments were suitable for applications that require significant resource use and intricate integrations that could increase the cost of deployment and operating expenses. However, the pandemic and variants cause on-premise activity to be minimized.

**Capital Allocation in Balance.** COVID-19 stressed the importance of organizations being able to be efficient and resilient. A lot of executives were asked to reduce significant amounts of their budgets and repurpose existing funds to create resilient environments for business transformation, increase infrastructure, as well as collaboration tools. These investments in defense-related to the safeguarding and preservation of the business's assets – are crucial.

However, for the business leader in charge of a business transformation initiative it's a matter of table stakes!

The smart transformation leaders are focused on business innovation, as well as other business transformation investments that act to open up new business models, new opportunities and revenue sources (Think increase revenue, decrease expense, increase operational efficiency, etc.) Our research indicates that top-performing businesses have a tendency to spend budgetary discretionary funds to grow their business, while other companies focus on safeguarding the business. Cutting expenses is never a growth strategy.

**Transformation Benchmarks as Guideline.** When it comes to assessing the effectiveness of business transformation, some organizations depend on benchmarks from industry to determine if they're over or under spending and also to determine the appropriate allocation of business transformation budgets. Since the lines between industries and the segments therein blur, these benchmarks must be used as a guideline rather than as gospel.

Companies operating in the same field may have a variety of business models and strategies which can result in very diverse business transformation investment strategies. In the absence of context, using benchmarks for investment can be risky. It is crucial to ensure that spending is aligned to the corporate strategy of the company and its goals, as well as its future environment of competition and their technology goals. It is crucial in ensuring that the business transformation budget monies are quickly allocated in order to maximize the value (See time comment earlier). An effective business transformation oversight system can enable leaders to continuously examine investments in business transformation to ensure that they are delivering value continuously and permit them to swiftly transfer funds when the investment is not performing as expected.

### Looking ahead to 2023 and Beyond

In the year 2021, the impact from the pandemic to budgets for business transformation was not as dramatic as originally thought (As one of the leaders shared, “*The pandemic caused a lot of ‘Who’d have thought’ moments!*”) The Business Transformation Leader surveys conducted during the second and third quarters of 2021 showed that although many CEOs are skeptical about the speed at which business activity and revenues would be restored to pre-crisis levels, they are nevertheless expecting significantly greater levels of business transformation success, while they are overwhelmingly expecting greater remote work in the future until the virus can be brought under control. This could indicate an increase in spending on business transformation.

The majority (85%) of CEOs that participated in an earlier survey said that their businesses' digital business transformation has significantly increased during the recession. They are more confident than other leadership counterparts. The majority of CEOs do not believe that the economic slowdown will continue and more than half (51%) of 2022, affirming that their employment rate never decreased in the past or are already returning back to pre-pandemic levels, with 44% saying revenue never slowed down or is about to return to pre-pandemic levels.

Budget increases could not be as significant in 2022, particularly in sectors that experienced heavy losses in the course of the pandemic. We do expect that in the coming two years, many businesses will utilize the outbreak for an excuse to review their business transformation experiences to improve employee engagement, review growth strategies, and utilize technology to improve efficiency and growth. In general, we anticipate the business transformation budget to remain at or surpass the levels that were set for pre-pandemic in all industries within two years. We also predict in 2022 that companies will invest on average 5.11 percent of their revenue on business transformation.

Although the pandemic of 2020 has caused disruption to investment growth in business transformation, there is a positive side. Leaders have the chance to influence lasting changes regarding how they think about investment in business transformation so as to improve enterprise agility, making operations more agile, more efficient, and more prepared to respond to any new threat.

#### The Topics in this White Paper

Business Transformation, Change, Innovation, and Leadership

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*A wise man adapts himself to circumstances, as water shapes itself to the vessel that contains it.*

*- Chinese Proverb*

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## CRO/CMO Program



Chief Revenue Officers (CROs) and Chief Marketing Officers (CMOs) live unique and challenging lives that require them to operate at the crossroads of transformation and growth in order to add benefits to their businesses. To assist CROs and CMOs in tackling the challenges and concerns they face, The Zeroing Agency has created the **CRO/CMO Program**. It offers unique solutions to aid the CRO and CMO career development process through leadership development workshops, immersive lab experiences, information on controversial topics, career transition assistance, as well as opportunities to enhance the solutions and services they provide to their organizations/clients.

To find out how you can take advantage of this opportunity and architect a plan for success, see if you qualify by scheduling up to a 30-minute [\*No Obligation CRO/CMO Program Exploration\*](#) with me and begin your (or your organization's) success journey today. Here's the link where you can schedule a complementary 30-minute session today:

[\*\*CLICK HERE\*\*](#)

*or enter the following URL into your browser:  
<https://calendly.com/spalazzolo/30min>*

ABOUT THE AUTHOR



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The Javelin Institute is a 501(c)(3) nonprofit focused on assisting those that face family hardship (Death, Disease, Divorce, Drugs, etc.) serving corporate donors through Leadership Development (Strategy | Innovation | Change | Execution) and Executive Coaching.

