THE DIGITAL DIVIDE

How are UK businesses faring?

Pulsant

Connect to your potential

CONTENTS

INTRODUCTION

UK businesses have never experienced such volatile market conditions. They are challenged with bouncing back from the pandemic and acclimatising to life after Brexit. Now more than ever, it's important to have the right strategies in place to deliver a fast recovery and pave the way for growth.

The urgency to overcome these challenges is felt across the nation, but more so in regions that are often underserved by the technology and network infrastructure that enables digitalisation.

The pandemic acted as a catalyst for digital acceleration, forcing many organisations to revisit their business models and IT strategies to achieve organisational agility. But has the race to digitalise in such a concentrated timeframe paid off for businesses across the UK, or has it created a digital divide with some faltering while others have flourished? This is the question we set out to answer with this research.

Becoming a digital business means making smarter decisions informed by data. It means investing in cloud to become more agile and efficient; and it means using new applications to better serve customers. For some organisations, being a digital business also means being able to create market leading digital products and services.

Significant gaps could emerge between organisations equipped to grasp the digital opportunity and adapt to change, and those struggling to understand and apply digital transformation strategies. We set out to discover whether divides exist between aspiration and reality, vision and strategy, business leaders and IT teams, and organisations in different regions across the UK. This research also examines the barriers that are blocking businesses from crossing the digital divide, such as strategy, culture, infrastructure, location and skills.

The research was conducted by independent research provider Censuswide amongst 200 IT decision-makers and 200 business leaders in UK mid-sized companies (200 – 2,500 employees).

> *Becoming a digital business means making smarter decisions informed by data. It means investing in cloud to become more agile and efficient; and it means using new applications to better serve customers.*
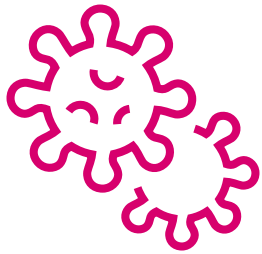
KEY FINDINGS

DIGITAL *MEANS* BUSINESS

- **99% of businesses say digital transformation is important**

PRIORITY DIGITAL INVESTMENT AREAS

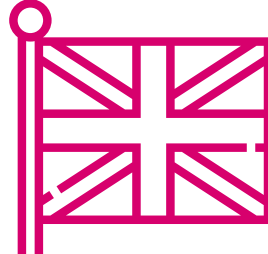|	
Customer experience	67%
Employee productivity	66%
Cloud migration	62%
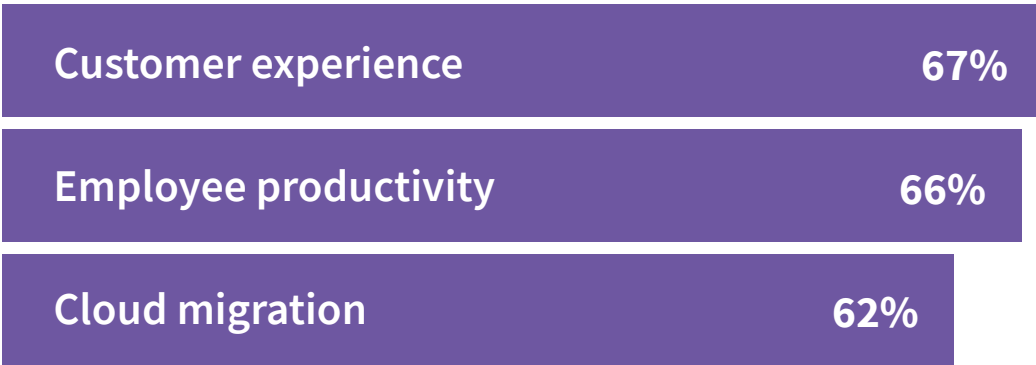
- The biggest drivers for digital transformation are improving operational efficiency **(66%)** and business agility **(64%)**

AND 2020 HAS SUPERCHARGED TRANSFORMATION...

75%
say **Covid-19** accelerated digital transformation

79%
say **Brexit** impacted their transformation plans

76%
say **expectations of IT** have risen over the last year

...BUT ORGANISATIONS STILL FACE MANY BARRIERS

87%
say **location** makes hiring and retaining skills challenging

52%
have issues **integrating** with **legacy infrastructure**

36%
say their **culture** doesn't support digital change

AND CLEAR DIGITAL DIVIDES ARE EMERGING WHICH COULD LIMIT POTENTIAL

- Digital transformation is now critical, yet **only 65%** say their organisation is mostly digitalised

- **84%** say their business has a clear vision for digital transformation yet **only 42%** have an established digital transformation plan

- **61%** in London and the South East say their location is an advantage to their transformation ambitions. **Only 41%** in the rest of the UK say the same

- **89%** are confident in the resilience of their IT infrastructure, yet **only 68%** believe it is fit for purpose for future needs

MAPPING THE UK'S DIGITAL JOURNEY

What does digital mean to businesses in 2021 and where are they on their transformation journeys? Digital transformation is now a universally important business issue with **99%** of IT decision-makers saying it is important, of which, **72%** say it is very important.

DRIVERS OF TRANSFORMATION

Businesses are choosing to transform for many reasons, with the key drivers being improved operational efficiency, business agility and customer experience.
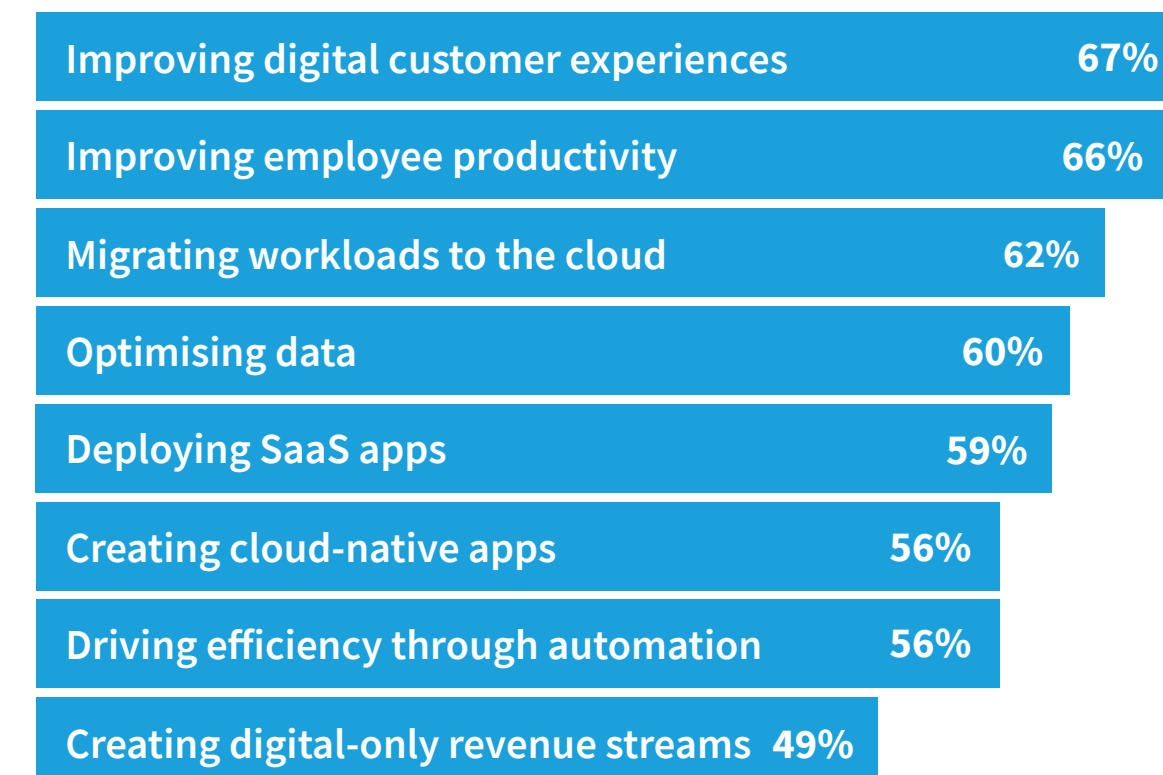
THE PRIMARY DRIVERS FOR DIGITAL TRANSFORMATION

Operational efficiency	66%
Business agility	64%
Customer experience	63%
Driving new revenue streams	47%
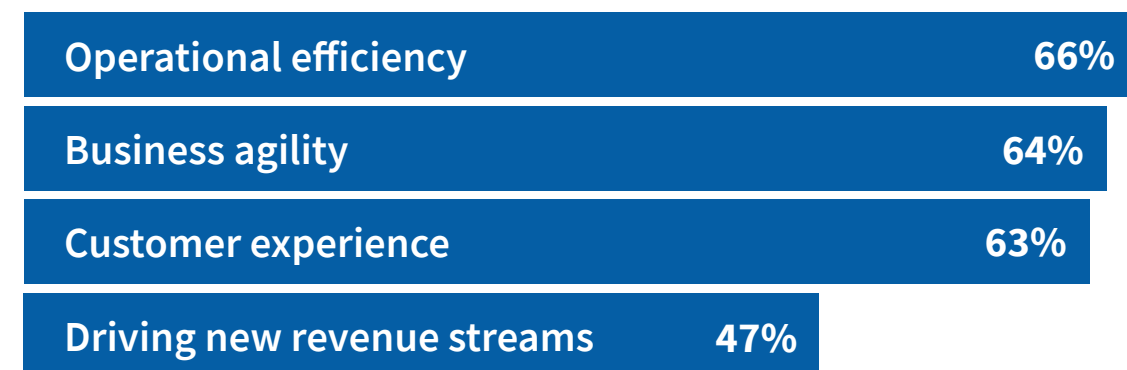
Driving new revenue streams is more important to organisations in London and the South East **(55%)** compared to the rest of the UK **(44%)**, suggesting there is a greater need to improve efficiency, agility, and experience outside of the London bubble.

Digital transformation is taking place in a number of ways, however, the top use cases are driving improvements in customer experience, employee productivity and migrating workloads and data to the cloud. Creating new digital-only revenue streams is the least popular use case, yet still almost half of businesses are already doing this, indicating a strong appetite for diversification.

WHAT BUSINESSES ARE DOING TO TRANSFORM

Improving digital customer experiences	67%
Improving employee productivity	66%
Migrating workloads to the cloud	62%
Optimising data	60%
Deploying SaaS apps	59%
Creating cloud-native apps	56%
Driving efficiency through automation	56%
Creating digital-only revenue streams	49%

Migrating to the cloud is one of the most common use cases of transformation. This highlights that organisations recognise cloud as an essential facilitator to becoming an agile business. A hybrid cloud infrastructure delivers the flexibility, scalability and ability to deploy applications easily on-demand. It allows organisations to adapt their infrastructure effortlessly as and when requirements change.
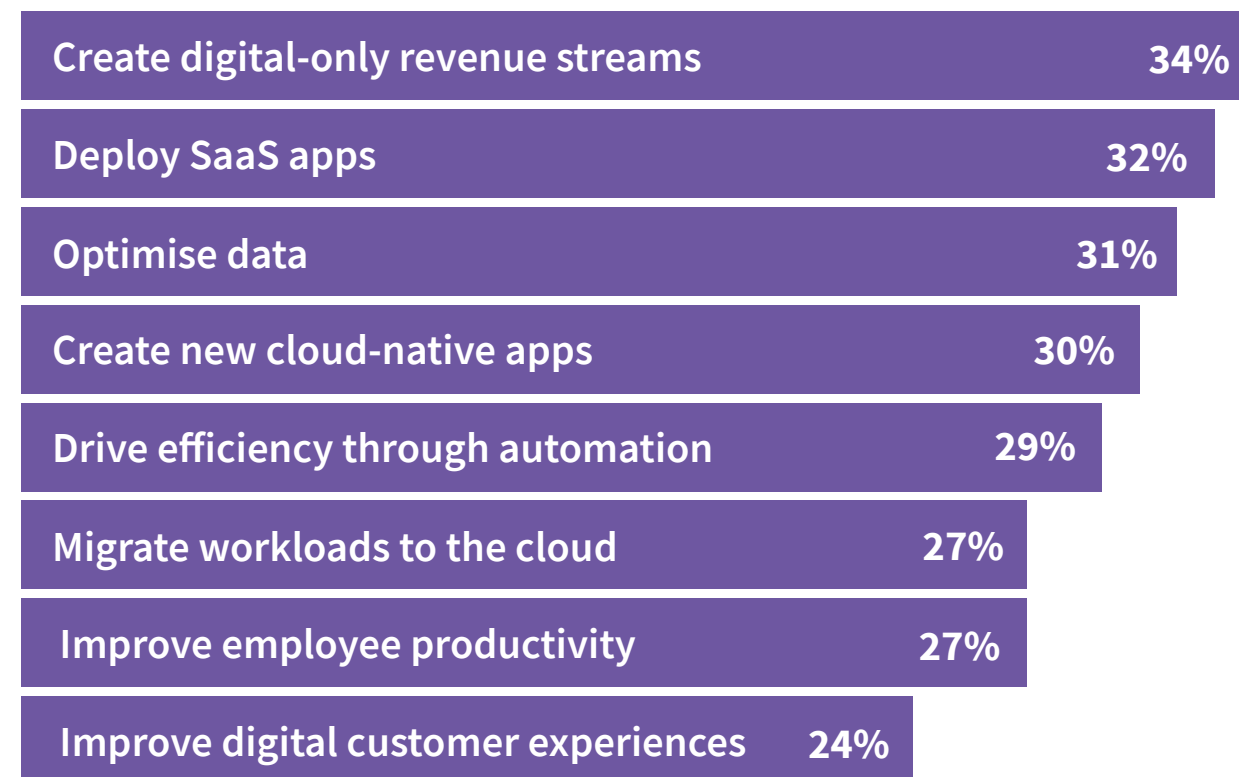
HOW DIGITALISED ARE BUSINESSES?

When it comes to how digitalised organisations are, IT and business leaders aren't always fully aligned. Over three quarters **(77%)** of business leaders believe their organisations are mostly digitalised but only **65%** of IT decision-makers agree. This suggests business leaders could be overconfident while underestimating the technology challenges their organisations face. This divide could create a potential barrier to IT securing further funds for transformation if not addressed.

TRANSFORMATION PRIORITIES

When it comes to priorities for the next year, many organisations' already have plans in place for further transformation to reach their digital goals.

HOW ORGANISATIONS PLAN TO IMPLEMENT DIGITAL TRANSFORMATION IN THE NEXT 12 MONTHS

Priority	%
Create digital-only revenue streams	34%
Deploy SaaS apps	32%
Optimise data	31%
Create new cloud-native apps	30%
Drive efficiency through automation	29%
Migrate workloads to the cloud	27%
Improve employee productivity	27%
Improve digital customer experiences	24%

Digital transformation is usually driven by a need to improve operational efficiency and organisational agility. However, the focus looks set to shift towards driving growth from digital products in the next 12 months. Creating new digital-only revenue streams' is the biggest focus, suggesting that organisations are looking at revenue as the next step once they have achieved the level of agility they set out to accomplish.

THE IMPACT OF THE LAST 12 MONTHS

Digital has emerged as more critical than ever after the events of the last 12 months. This has increased organisations' expectations from IT and accelerated the pace of change.

ACCELERATION OF DIGITAL TRANSFORMATION

In the wake of the pandemic, **51%** of business leaders say digital transformation has become more critical and **75%** of IT decision-makers say Covid-19 accelerated digital transformation, with **62%** advancing by more than six months.

## ACCELERATION OF DIGITAL TRANSFORMATION AS A RESULT OF COVID-19
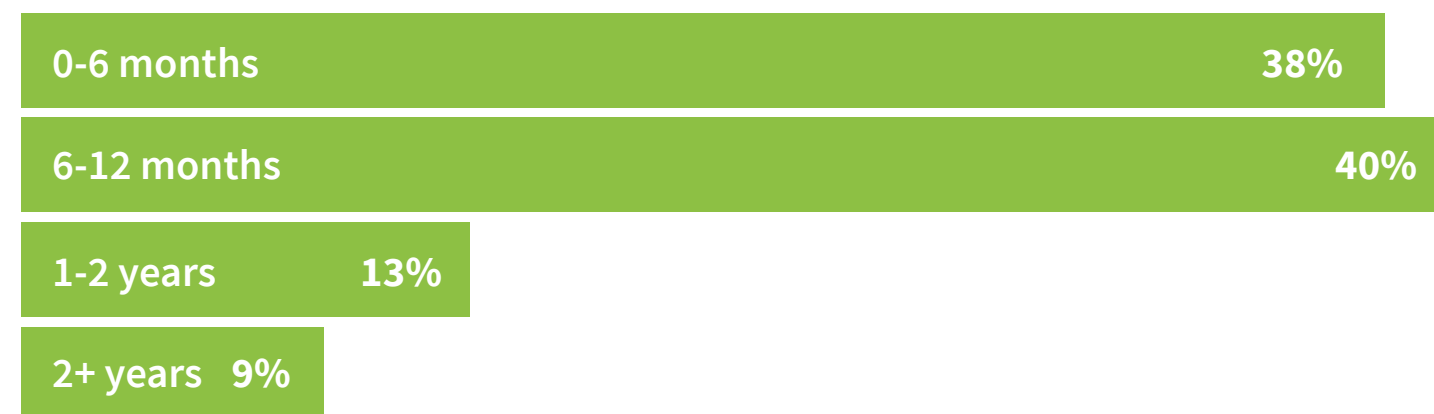
0-6 months	38%
6-12 months	40%
1-2 years	13%
2+ years	9%

75% of IT decision-makers say Covid-19 accelerated digital transformation, with 62% advancing by more than six months

RETHINKING INFRASTRUCTURE

The pandemic also caused a re-think with **66%** of IT decision-makers saying it forced them to revisit their infrastructure strategy. The top reasons were security and compliance concerns, a need to migrate more workloads to the cloud and gaining better access to infrastructure.

TOP REASONS FOR REVISITING INFRASTRUCTURE STRATEGY DUE TO COVID-19?

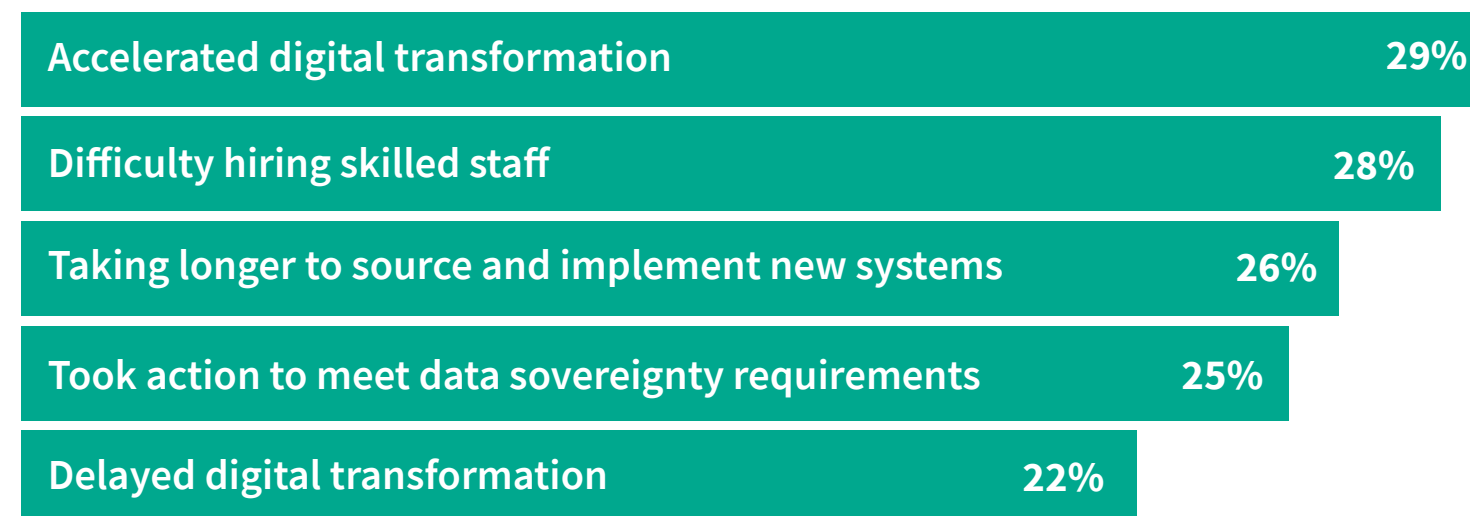|	
Security & compliance	54%
Cloud migration	45%
Infrastructure access	40%
Resilience	39%
Network capacity	25%
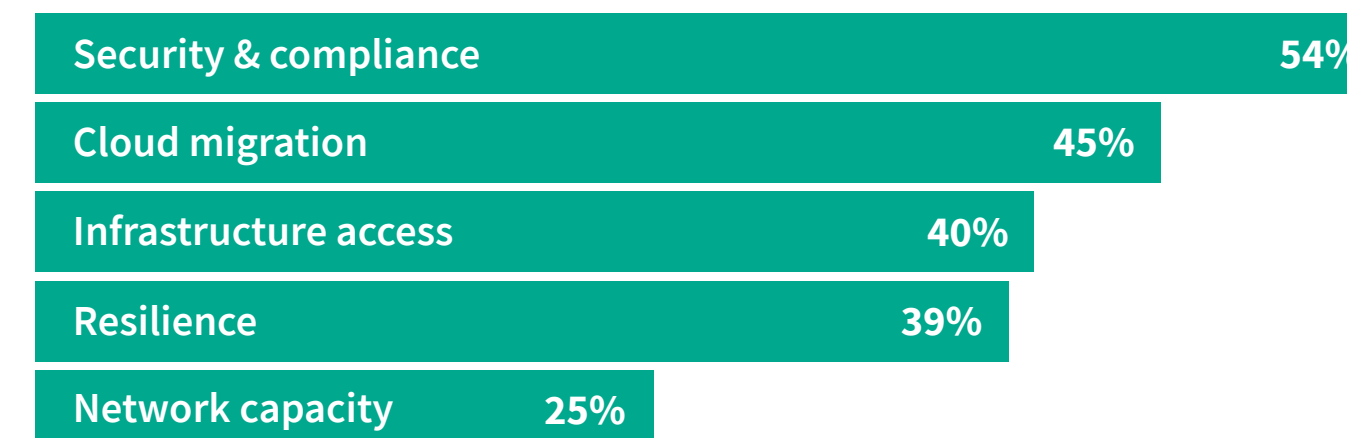
The impact of the pandemic on transformation is seen as positive by over half **(53%)** of business leaders in London and the South East, but only **34%** across the rest of the UK feel the same. This may suggest lower confidence in regions that are typically underserved by the technology and infrastructure that supports transformation.

THE IMPACT OF BREXIT

Brexit has also altered digital initiatives with **79%** saying it impacted transformation plans. Impacts were varied across organisations, including challenges around strategy and implementation, as well as skills and data sovereignty.

TOP IMPACTS OF BREXIT ON TRANSFORMATION PLANS

Accelerated digital transformation	29%
Difficulty hiring skilled staff	28%
Taking longer to source and implement new systems	26%
Took action to meet data sovereignty requirements	25%
Delayed digital transformation	22%

Fewer businesses in London and the South East have felt the impact of Brexit compared to the rest of the UK, possibly because businesses located in and around the London bubble are typically better served and better connected to the right technologies and networks, with potentially stronger existing relationships with international markets.

UNDERSTANDING THE CHALLENGES

Aside from Brexit and Covid-19, **93%** of organisations admit to facing other challenges. The top three are maintaining security and compliance, budget constraints and having too high workloads - the same challenges identified in our **IT Paradox report** in 2020.

2020		2021
40%	Budget constraints	28%
34%	Too much workload	25%
27%	Maintaining security & compliance	31%
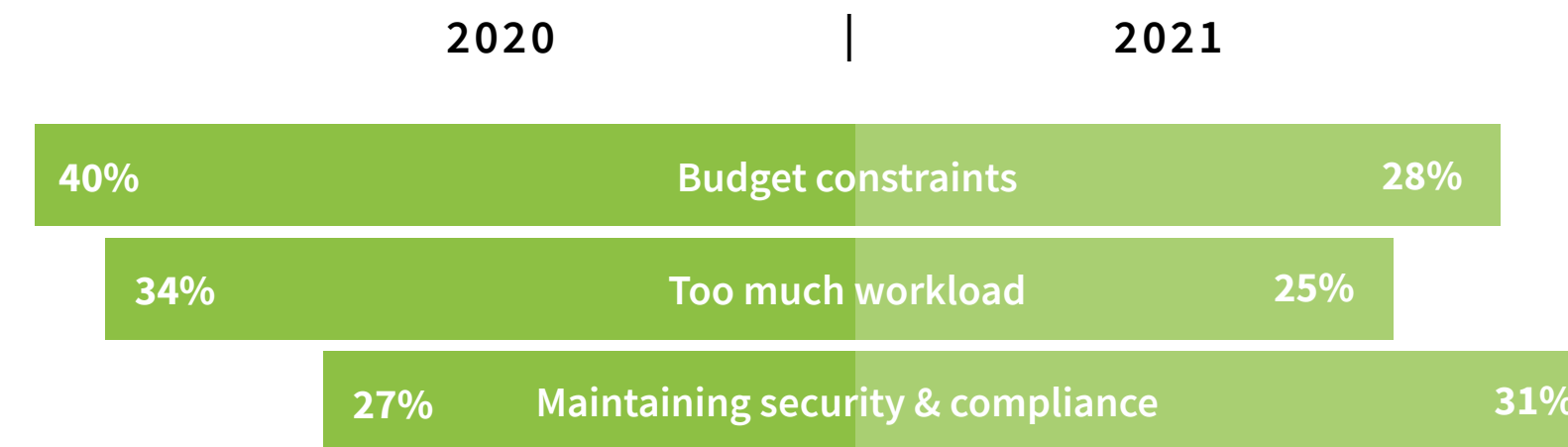
The positive news is that budget constraints are now much less of a challenge, suggesting the brakes are coming off technology investment. However, security and compliance has risen to the fore, likely a result of the complexities caused by the shift to remote working from the pandemic.

Budget constraints are now much less of a challenge, suggesting the brakes are coming off technology investment

FEELING THE PRESSURE

IT teams are also tackling rising pressure and expectations. Over three quarters **(76%)** of IT decision-makers say their organisations' expectations have risen over the last 12 months and **68%** have felt increasing pressure to keep the organisation running effectively (aside from supporting remote working in the current circumstances).

> **For those that are feeling the pressure, this is manifesting in a number of ways:**
>
> - **40%** have experienced/are experiencing anxiety
> - **29%** are suffering from unsustainable stress which will result in burnout
> - **21%** have experienced burnout, causing absence from the business
> - **13%** have started looking for a new job
> - **4%** have resigned

If organisations don't provide greater levels of support for IT teams, they could experience increased absenteeism and reduced productivity as a result of burnout. In some cases, IT staff are leaving their organisations entirely as a direct result of the pressure they're feeling.

WHAT BUSINESS LEADERS THINK

Despite the increased pressure, an overwhelming **88%** of business leaders think IT is meeting or exceeding business expectations, just a slight decrease from **95%** in 2020. However, only **31%** say IT is exceeding expectations compared to **57%** last year, possibly indicating that teams are overstretched and under-resourced.

In terms of priorities, business leaders see IT delivering the greatest value in the next 12-18 months in helping to drive improvements in security, efficiency and wider business transformation.

WHERE IT CAN DELIVER THE GREATEST VALUE

Protecting against cyber threats	23%
Enabling staff and business efficiency	20%
Digital transformation	20%

KEY TAKEAWAYS

Clearly, Brexit and the pandemic have impacted transformation journeys over the last 12 months. IT teams are under more strain than ever before as the fallout of the pandemic and Brexit have thrust them into centre stage.
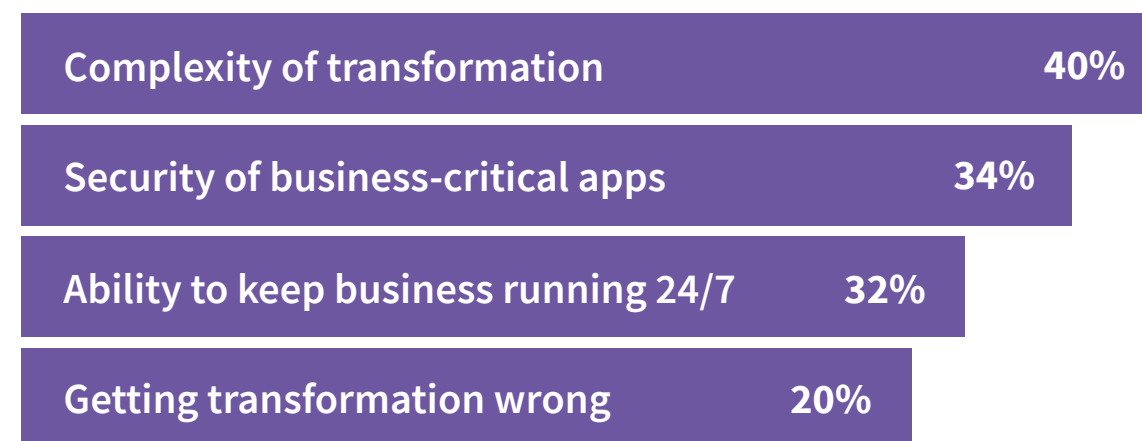
The wellbeing of IT teams remains a prevalent issue with concerns identified last year still present and at least as bad, or worse. Some business leaders say IT is faltering in meeting expectations in 2021 compared to 2020 and this could be down to increased pressure to keep the business running.

TRANSFORMATION CHALLENGES

If the rising pressure wasn't enough for IT teams to deal with, many have concerns about their organisations' digital transformation journeys including worries about complexity, security and ability.

IT DECISION-MAKERS' BIGGEST CONCERNS AROUND DIGITAL TRANSFORMATION

Complexity of transformation	40%
Security of business-critical apps	34%
Ability to keep business running 24/7	32%
Getting transformation wrong	20%

These concerns are compounded by a number of barriers that IT decision-makers are facing in areas including strategy, implementation, skills, infrastructure, strategy and location.

1. STRATEGY

IT decision makers face a number of barriers when it comes to digital transformation strategy. Over a third **(35%)** say lack of skills is a barrier, followed by insufficient budget and resources **(33%)**. Other obstacles that need to be overcome include the inability of current systems to support digital initiatives **(31%)** and the complexity of technology choices **(30%)**.

2. IMPLEMENTATION

Implementation is another area of significant difficulty with **88%** admitting to facing barriers. Over half **(52%)** have trouble integrating new systems and applications with legacy infrastructure; a challenge that can be addressed with a hybrid cloud strategy, providing greater flexibility by balancing workloads across different (private and public) clouds.

Budget is also a barrier to implementation with four in ten saying budgets are too low to meet the level of investment needed. However, business leaders see budget as less of an issue, indicating a disconnect between expectation and cost.

Over a third **(36%)** say their culture or structure does not support or enable digital change. Without a culture that embraces progress, transformation projects could be doomed to fail.

Over half (52%) have trouble integrating new systems and applications with legacy infrastructure

3. SKILLS

Accessing digital skills is another significant challenge. The majority **(86%)** are struggling to access skills required to support transformation. This is a bigger challenge in the North with **49%** saying the skillset is not readily available and **44%** saying talent is not available.

Digital skills appear to be concentrated in and close to London, with the south having less challenges accessing the right skills and talent. However, this will likely become less of an issue as businesses embrace remote working.

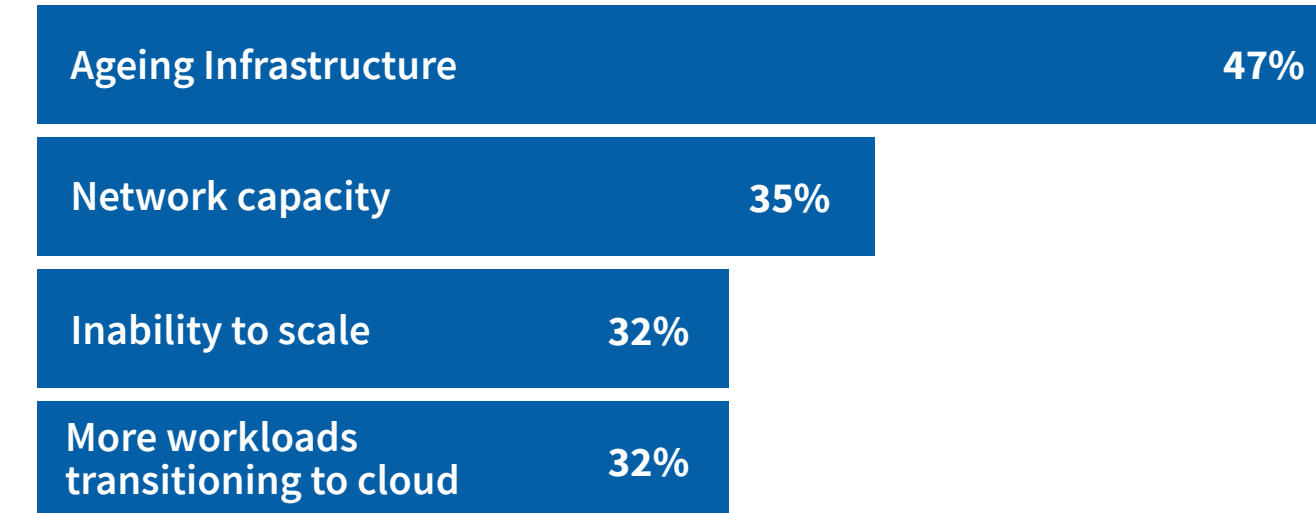> ## *86% are struggling to access skills required to support transformation*

CHALLENGES ACCESSING SKILLS REQUIRED TO SUPPORT DIGITAL TRANSFORMATION

REST OF UK

42%
Have challenges accessing niche skills

38%
Say required talent not available

LONDON & SOUTH EAST

35%
Have challenges accessing niche skills

20%
Say required talent not available

4. INFRASTRUCTURE

While progress has been made with digital transformation, only **68%** believe their current IT infrastructure is fit for purpose for their organisation's future needs.

WHY INFRASTRUCTURE IS NOT FIT FOR PURPOSE FOR FUTURE NEEDS

Ageing Infrastructure	47%
Network capacity	35%
Inability to scale	32%
More workloads transitioning to cloud	32%

> ## *Only 68% believe their current IT infrastructure is fit for purpose for their organisation's future needs*

Worryingly, **27%** of business leaders see having insufficient technology or infrastructure to meet future growth demands as a top business threat. A hybrid cloud strategy can enable organisations to flex and scale IT infrastructure when needed and keep tighter control of costs.

Over half **(53%)** also believe the location of their organisation is a barrier to accessing reliable IT infrastructure and **79%** of business leaders agree.
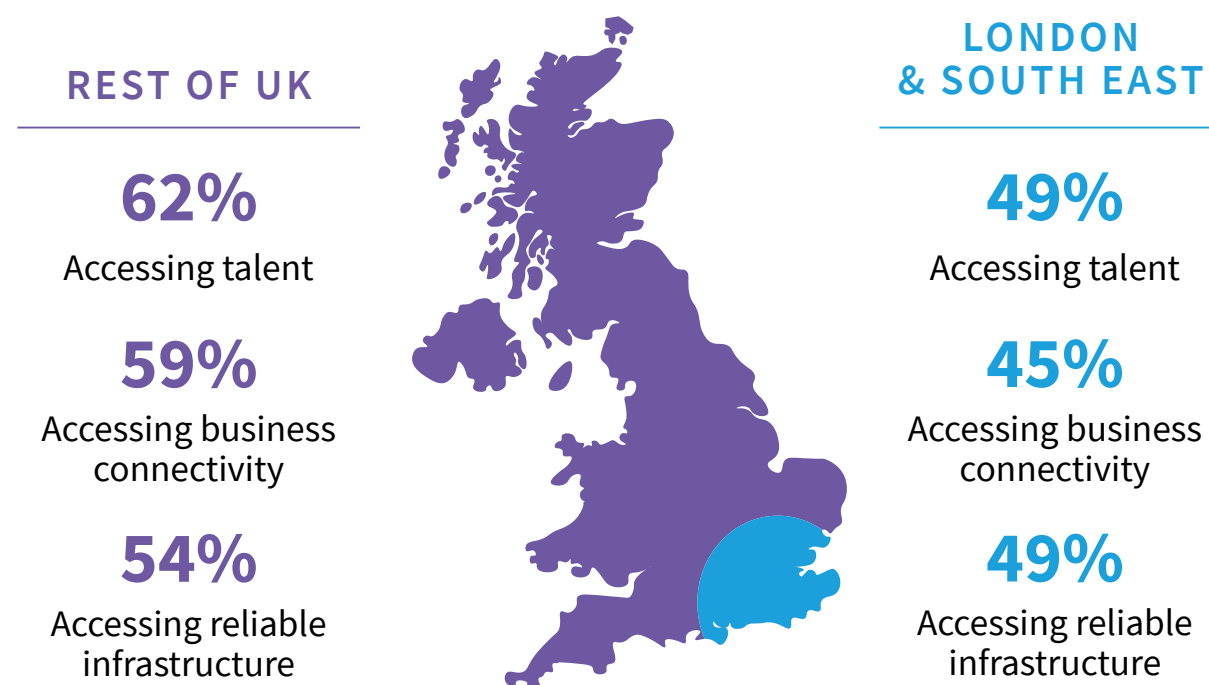
5. LOCATION

Location is also seen as a barrier by IT decision-makers to accessing key critical components to digital transformation including talent **(59%)**, business connectivity **(56%)** and reliable infrastructure **(53%)**.

The majority **(63%)** believe the location of their business has an impact on their digital transformation ambitions with more businesses in London and the South East saying their location is an advantage **(61%)** compared to the rest of the UK **(41%)**. This is unsurprising as many of the technology vendors and networks are centred around London.

This trend is repeated throughout, with London and the South East experiencing less barriers than the rest of the UK.

DIFFERENCE IN PERCEPTIONS OF LOCATION AS A BARRIER BETWEEN THE SOUTH AND REST OF UK

REST OF UK

62%
Accessing talent

59%
Accessing business connectivity

54%
Accessing reliable infrastructure

LONDON & SOUTH EAST

49%
Accessing talent

45%
Accessing business connectivity

49%
Accessing reliable infrastructure

KEY TAKEAWAYS

It is clear that business in all regions face challenges on their digital transformation journeys, including those that benefit from being located in London and South East. Regional businesses need to consider strengthening their infrastructure and connectivity and this will be supported by the adoption of edge networks that roll out to underserved regions. When it comes to accessing skills and understanding complexities, organisations should consider enlisting external expertise that can fill in the gaps.

EMERGING DIVIDES

The research uncovers clear divides that organisations need to overcome to master digitalisation and facilitate successful and sustainable transformation. These include discrepancies between aspiration and reality, vision and strategy, disconnects between London and the rest of the UK and confidence levels and risks, and misaligned perceptions between IT and business leaders.

ASPIRATION VS REALITY

Businesses have clear digital aspirations. The majority are already embarking on digital transformation journeys and most have plans to increase transformation in the next 12 months.

Only **65%** of IT decision-makers say their organisations are mostly digitalised and **88%** are facing barriers to implementation.

This could suggest a misconception that simply beginning a digital transformation journey places the organisation on a clear path to digitalisation. But without a clear strategy, in-depth understanding of the solutions required and the right skills in place, businesses could be in a long, costly journey that fails to deliver on their digital aspirations.

VISION VS STRATEGY

Organisations have the right vision with **85%** saying their business has alignment between business objectives with IT and **84%** admitting having a clear vision for digital transformation. Three quarters have an assigned leader in place and 70% have a holistic view of all elements required to achieve successful digital transformation.

Only **42%** have an established transformation plan in place, **11%** say transformation is unplanned and ad-hoc, and **11%** say they have no idea where to start with their transformation plans.

Despite many positive steps being taken to understand where organisations want to be, it is evident that many don't have a robust transformation strategy in place.

BUSINESS PERCEPTION VS IT PERCEPTION

77% of business leaders say their organisation is mostly digitalised. Only a third think budget is a barrier to transformation strategy and just **26%** think lack of specialist skills is a challenge.

65% of IT decision-makers say their organisation is mostly digitalised. Four in 10 **(41%)** think budget is a barrier to transformation strategy and over a third **(35%)** think lack of specialist skills is a challenge.

There is a disconnect between how digitalised business leaders and IT leaders believe their organisations are and the challenges to digitalisation with business leaders more optimistic. It is not uncommon for different functions within the business to not be completely aligned all of the time. But when it comes to digital transformation – which organisations overwhelmingly view as critical – alignment between business leaders and IT is essential to making sure transformation is both meaningful and successful.

CONFIDENCE VS RISK

91% of IT decision-makers say they feel confident in the security of their IT infrastructure and **89%** feel the same about its resilience.

Only **68%** of IT decision-makers believe their current IT infrastructure is fit for purpose for their organisation's future needs. Plus, over a third **(38%)** of business leaders believe cyber security is a top business risk and **27%** think insufficient technology or infrastructure to meet future growth demands is a top threat to the business.

These findings suggest that confidence might be too high in current infrastructure and more consideration needs to be put into organisations' security postures as they introduce significant changes through transformation.

THE LONDON BUBBLE VS REST OF THE UK

Organisations in the London bubble are well on their digital transformation journey with **59%** already creating digital-only revenue streams. Yet **63%** say integrating new systems and applications with legacy infrastructure is a significant barrier.

The pandemic has had a bigger impact on transformation in the London bubble with **73%** of organisations accelerating transformation by more than six months. Over half **(53%)** also feel positive about the opportunity of digital as a result of the pandemic and 61% say their location is an advantage to their digital transformation.

Less than half believe location is a barrier to accessing talent **(49%)**, connectivity **(45%)** and reliable infrastructure **(49%)**.

Less than half **(46%)** of organisations in the rest of the UK are creating digital-only revenue streams, however, **34%** have plans to catch up in the next 12 months.

Over half **(58%)** have accelerated transformation by more than six months as a result of the pandemic and only **48%** are finding integrating new systems and applications with legacy infrastructure a significant barrier.

Organisations are less optimistic with just **34%** positive about the opportunity of digital as a result of the pandemic and only **41%** saying their location is an advantage to their digital transformation.

Location is seen as much more of a barrier to accessing talent **(62%)**, connectivity **(59%)** and reliable infrastructure **(54%)**.

CONCLUSION:
HOW TO CROSS THE DIGITAL DIVIDE

It is clear that digital is no longer an aspiration. For organisations across the UK, digital *is* business. The last 12 months have seen organisational agility become the priority and for most, this is the primary reason for undergoing digital transformation and migrating to the cloud. This pursuit of agility has largely been driven by the pandemic forcing businesses to quickly adapt to more flexible ways of operating, as well as the instability caused by the UK's withdrawal from the European Union.

Businesses recognise digital as the primary tool to achieve agility and cloud in particular has been instrumental in enabling businesses to scale up and down as required. However, while many organisations are progressing on their cloud journeys, there is a significant minority that are yet to realise the full potential of hybrid cloud and get their journeys off the ground.

> *Businesses recognise digital as the primary tool to achieve agility and cloud in particular has been instrumental in enabling businesses to scale up and down as required*

While many organisations are confident that they have the leadership and vision in place, there are notable divides that some are struggling to cross in their transformation journeys. These include transformation planning and implementation, access to the necessary skills, and location barriers for businesses located in regions outside of the South East.

Overstretched IT teams approaching burnout are an additional risk that organisations struggling to progress digital transformation projects need to address. IT teams are being pulled in multiple directions as they are expected to drive digital innovation within the business while resuming their traditional role of keeping day-to-day operations running. It is clear that external support is urgently needed to alleviate the pressure and reduce the burden on IT people.

Organisations struggling to bridge these gaps should seek the expertise of a partner that is experienced in supporting organisational agility through digitalisation and cloud migration and can provide more cost-efficient and flexible data management solutions such as colocation.

With legacy systems causing challenges and complexities, organisations embarking on a cloud journey should also consider a shift to hybrid cloud rather than a jump straight to cloud. They can achieve this by engaging with a partner that can evolve with them and help facilitate a shift to the cloud at the right pace. Organisations that recognise the challenges surfaced in this research should consider partnering with a specialist hybrid cloud provider that can help shape their transformation roadmaps and ensure long term digital success.

Are you on the right side of the digital divide? Speak to an expert at Pulsant to discuss your organisation's digital transformation ambitions. We're ready to help connect your business to its digital potential.

0345 119 9900 | info@pulsant.com

Visit us at **pulsant.com**
or call **0345 119 9911**

Pulsant
Connect to your potential