

Digital Transformation: A Sustainable Evolution Journey

Accenture China Digital Transformation Index 2022



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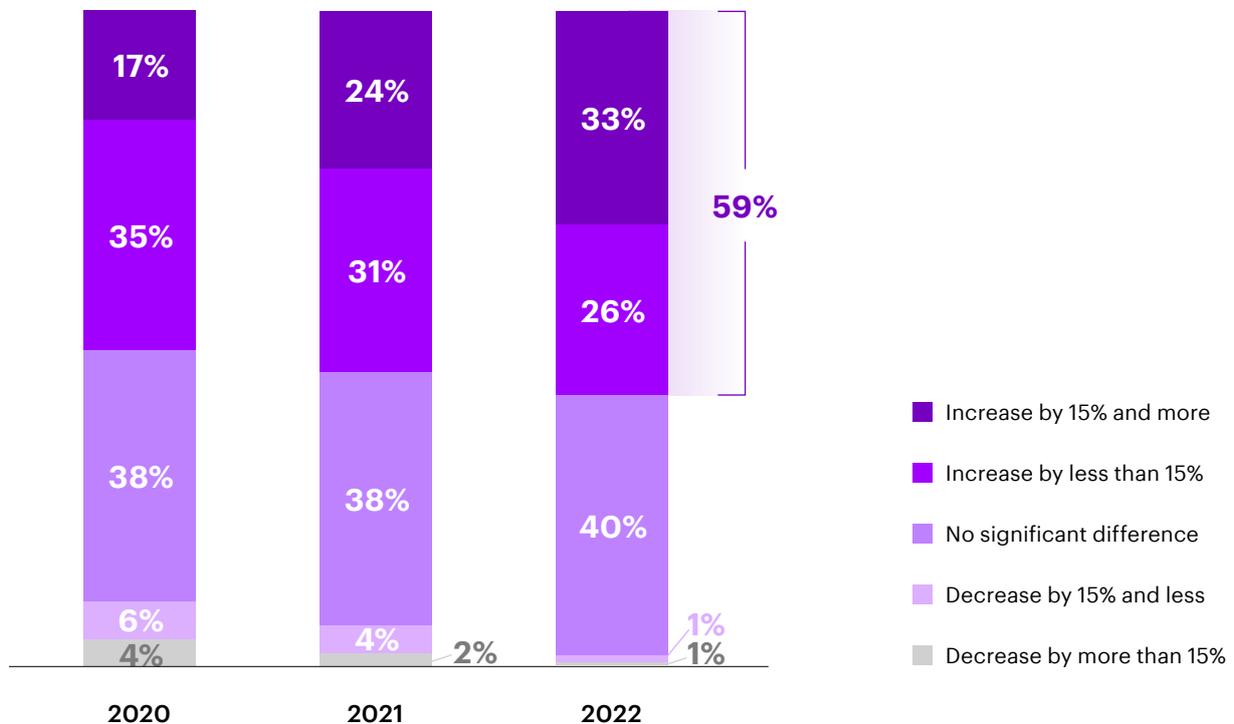
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Since March 2022, COVID-19 and the Ukraine crisis have compounded challenges facing the Chinese economy. In this increasingly uncertain environment, experts forecast China’s economic growth to less than 5%.¹ As a result, this year is **testing companies’ commitment to digital investments that can power enterprise transformation.**

Now in its fifth year, Accenture’s China Digital Transformation Index research, has assessed the digital adoption and maturity of Chinese companies across nine industries.

Despite the considerable headwinds, 59% of enterprises in China intend to increase their digital investment, suggesting that many have accepted that “digitalization is a must” (see Figure 1). This reflects an increase of four percentage points since 2021, and seven percentage points since 2020, with the number of companies intending to increase their digital investment by 15% or more doubling since 2020.

Figure 1: 59% of surveyed companies intend to increase their digital investment in the next 1-2 years

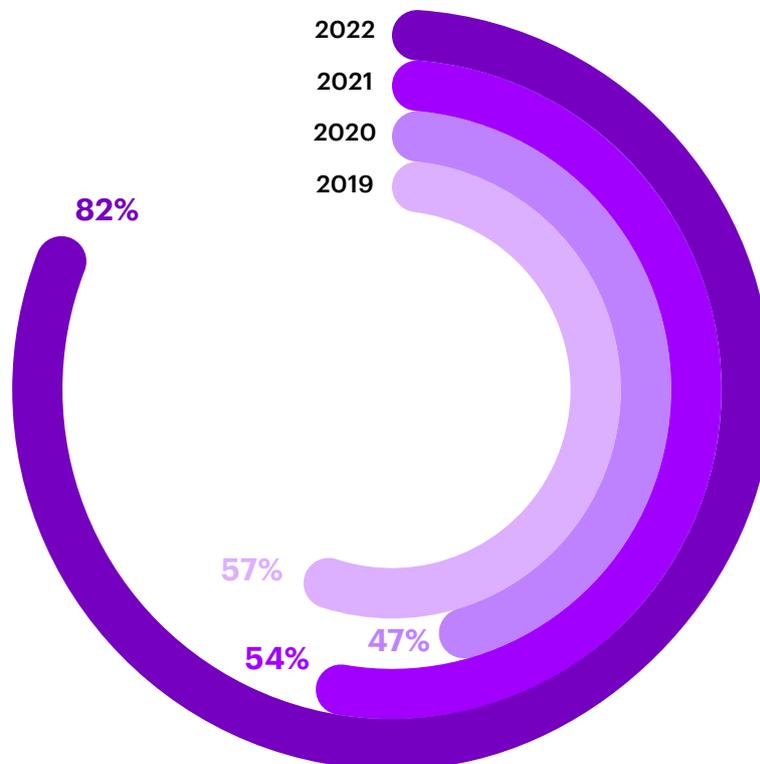


Source: Accenture Research, March to May 2022, N=574.

Although more companies plan to increase their digital investments, they are under great pressure to do so in a way that focuses on short-term financial returns. Business leaders are being assessed on their ability to generate returns in the next five years and are making digital investment decisions accordingly (see Figure 2). **The results are stark; according to Accenture’s Digital Transformation Index, China’s digital transformation score dropped for the first time in the last five years.**

This is a troubling indicator. A near-term focus may seem justified, but when companies pay too much attention to more immediate returns on their investments, they risk becoming “short-sighted” and postponing or rejecting projects that take a long time to deploy or are more difficult to quantify, such as the fundamental capability build-up, the development of smart products and new business model exploration. The value of these projects cannot be accurately assessed using short-term financial metrics, even though they may be essential to the longer-term sustainability and health of the business.

Figure 2: Eighty-two percent of companies focused on short-term financial metrics when they evaluated returns on digital investments, a significant increase from the last three years



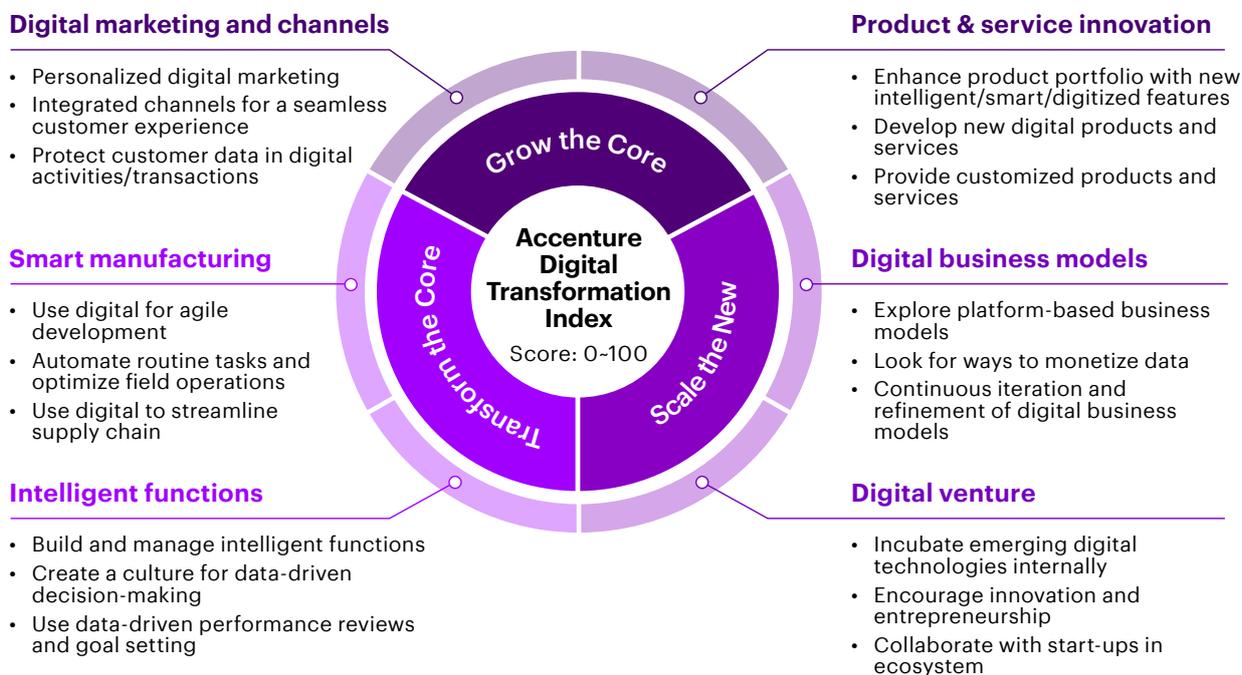
Source: Accenture Research, March to May 2022, N=574.

Accenture's 2022 China Digital Transformation Index

To construct the China Digital Transformation Index, first released in 2018, Accenture surveyed senior executives at 574 Chinese companies in nine industries: high-tech products, electronic components and materials, automotive and engineering machinery, medical and pharmaceutical, consumer goods, logistics, traditional retail, chemical and building materials, and metallurgy.

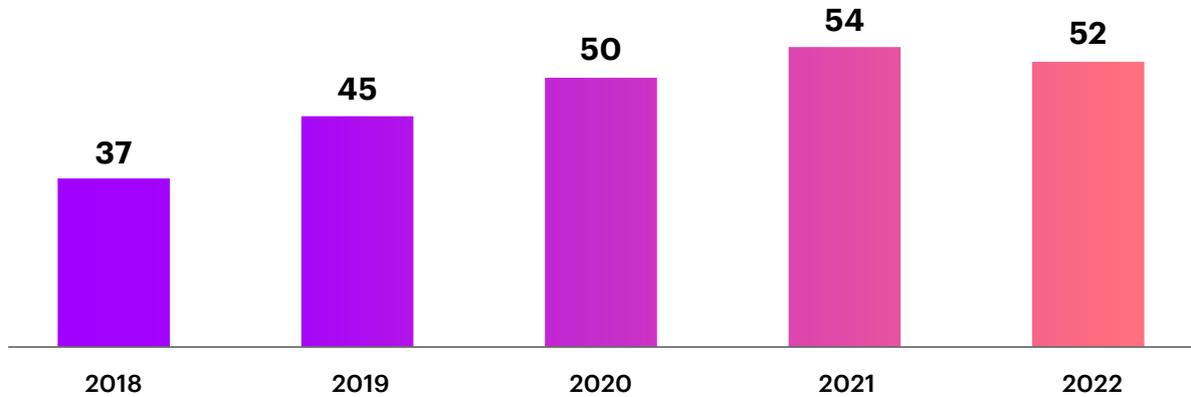
Additionally, Accenture evaluated these companies' proficiency in six key areas of digital transformation: digital marketing and channels, smart manufacturing, intelligent functions, product and service innovation, digital business models, and digital ventures (see the Infographic). The highest score attainable is "100" and the lowest score is "0". This year, the average across all companies was 52, down two points from last year (see Figure 3).

Infographic: Accenture's China Digital Transformation Index



Four-layer scoring structure: 3 dimensions, 6 components, 18 business activities, 52 detailed metrics. Scores are given at the 52 "metrics" level. A company's overall, and Dimension-level scores are an average of scores from next logical level down (e.g., Dimension-level score is the average of the two components scores within it). A score of 100 represents the most advanced digital enterprise that can be foreseen in current.

Figure 3: Chinese enterprises’ digital transformation index went down for the first time in 5 years



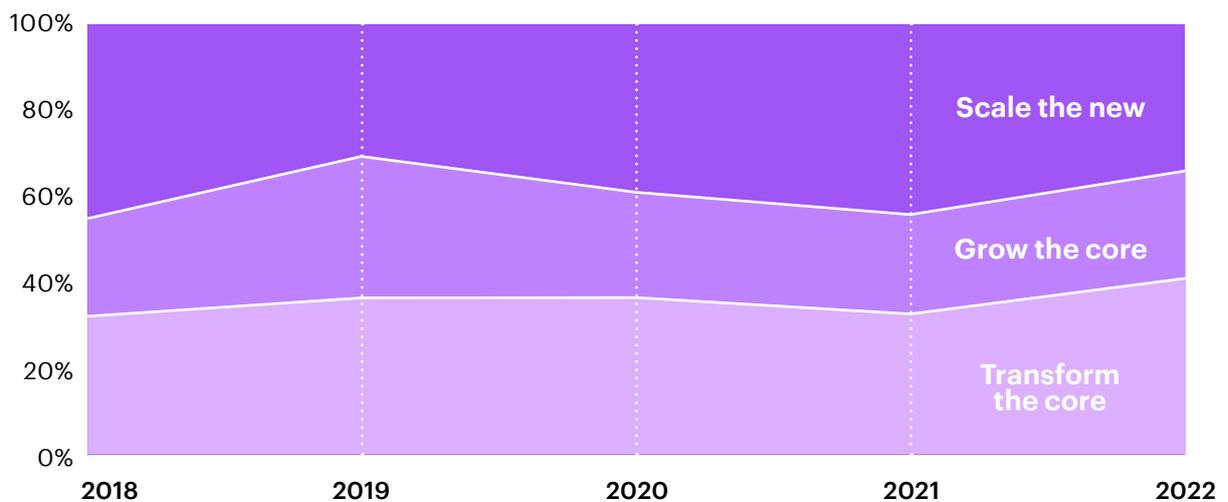
Source: Accenture Research, March to May 2022, N=574.

Additionally, we conducted text mining and NLP analysis of transcripts from Chinese companies’ earnings calls between 2018 and June 2022. Discussions of digitalization practices in the transcripts are divided into three categories. And the data represents the proportion of practices in one specific

category among all three (see Figure 4). Businesses adjusted their focuses dynamically over the past five years. Impacted by rising uncertainties in 2022, improving operational efficiency with digital technology became the new focus for business.

Figure 4: The focal point of 2022—improve operational efficiency with digitalization

The focal point of Chinese businesses’ digital transformation over the past five years



Note: We conducted text mining analysis based on the Earnings call transcripts generated from 2018 to June 2022. Discussions of digitalization practices in the transcripts are divided into 3 categories. And the data represents the proportion of practices in one specific category among all 3.

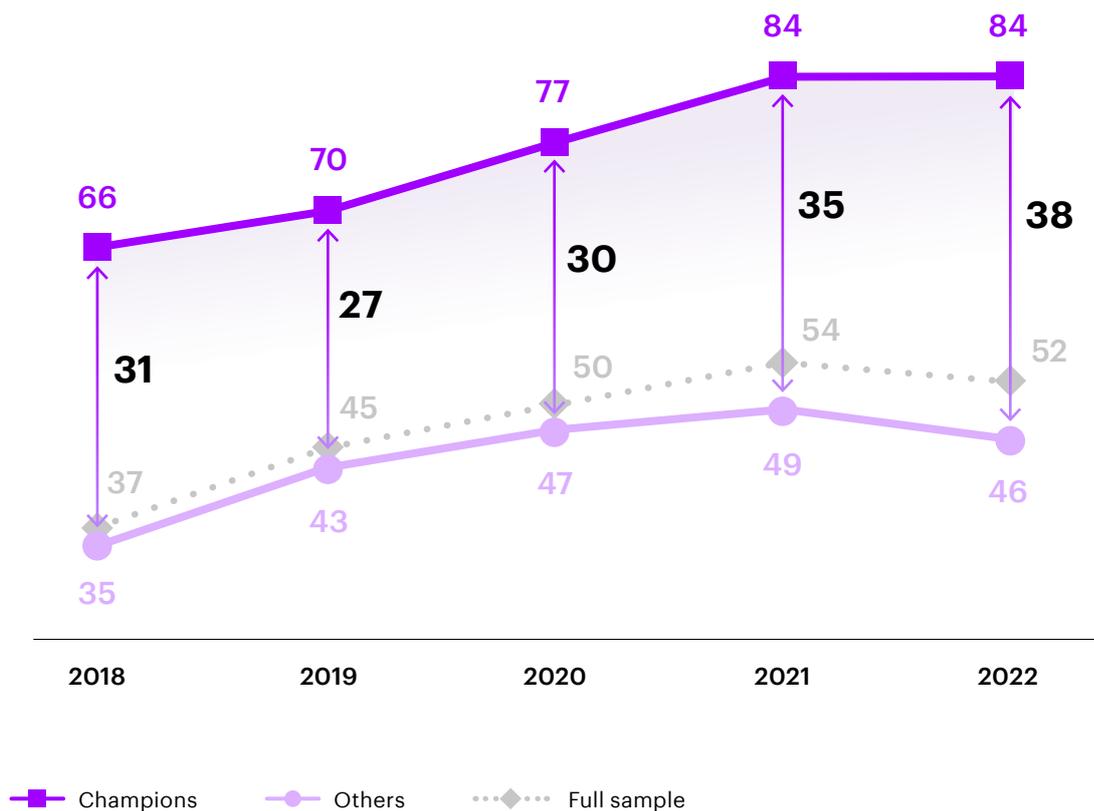
Source: Accenture Research, S&P Global Transcripts, N=88.

Champions and the rewards of determination

17% of the companies in the study emerge as Champions—companies that derived over 50% of their current revenues from business activities begun in the past three years. Zoom in on the index—Champions’ scores stayed flat from last year, but the gap between Champions’ scores and others has widened, with clear advantages accruing to those businesses where the determination to “transform” is firm (see Figure 5).

Figure 5: The digital transformation scores of Champions and others—showing a widening gap between them since 2019

Digital Transformation Index (Score: 0-100)



Note: Champions are those companies that derived over 50% of their current revenues from business activities begun in the past three years.

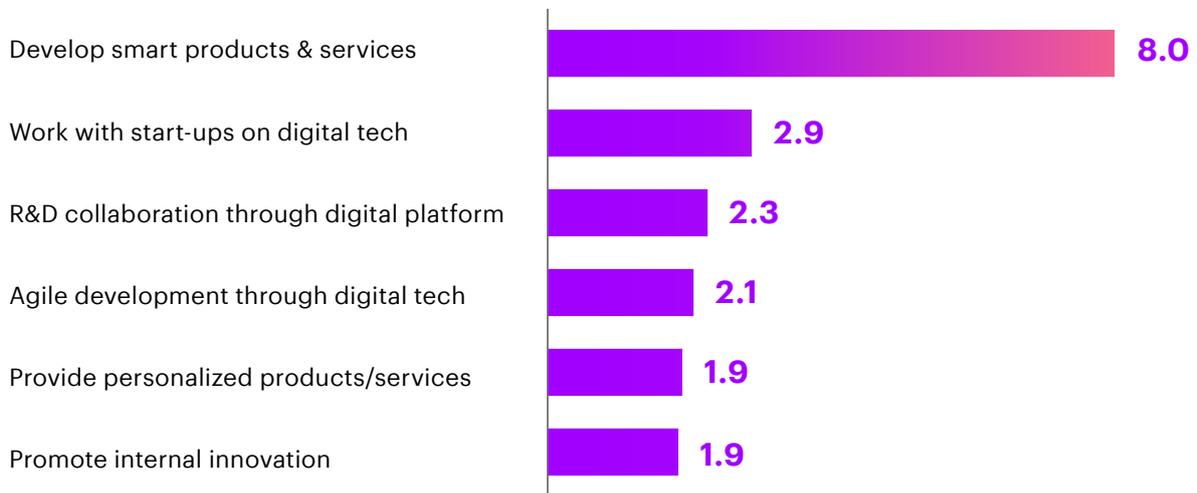
Source: Accenture Research.

While other companies focus on efficiency improvements of their core and existing businesses, and temporarily suspend their investments in the future, Champions forge ahead. These companies' leaders refuse to focus narrowly on survival. Instead, even as they engage in cost-reduction measures and

strive for higher efficiencies, they also invest in building innovation capabilities, including product & service and business model innovation. Thus, they continue to improve their competitiveness versus other companies (see Figure 6).

Figure 6: Champions lead in innovation

Champions score X times over others in these innovative areas



Source: Accenture Research, March to May 2022, N=574.

And they turn in stronger performance results. By investing in both the present and the future, Champions consistently achieved better performance.

We evaluated 195 listed companies in our sample based on their financial performance

from 2016 to 2021 and ranked them among their industry peers (graded 0-4). Champions achieved better performance in all four dimensions, and their overall performance is 11% higher than others (see Figure 7).

Figure 7: Champions' digital advantages translate to business performance

11%
improvement in performance

7%
increase in ability to achieve high shareholder returns

13%
increase in ability to achieve high return on investment

10%
increase in ability to capture future value

20%
increase in ability to sustain leadership position

Note: Results are obtained by evaluating the 195 listed companies in the sample based on their financial performance from 2016 to 2021 and ranking them among their industry peers (graded 0-4).

Source: Capial IQ, Accenture Research.

Analysis: Focusing on four key dimensions can help companies become Champions

The global economy is slowing down, value chains are being reshuffled, global inflation is on the rise, and geopolitical tensions remain high. China’s economy is facing the “triple pressure” of supply shocks, demand contraction and weakening expectations.²

In the next five years, “high-quality development”—rather than “high-speed growth”—will continue to be the main theme of China’s economy. To succeed in this pursuit, Chinese enterprises need to cultivate short-term resilience in response to the crisis and also boldly transform at the same time, so that they can leverage future growth opportunities.

Doing this well will require successfully balancing these interests across a myriad of

decisions—many involving difficult trade-offs. However, based on our analysis and conversations with executives from a range of leading companies, we believe that a consistent focus on four dimensions will help Chinese companies succeed:

1. Defining and maintaining a clear and overarching **purpose** for the business;
2. Improving the **experience** of customers, employees, and partners;
3. Leading with people in all aspects of **operations**;
4. Ensuring that **technology** adoption is fully supported by people who can leverage its potential.

Figure 8: Four distinctive characteristics set Champions apart



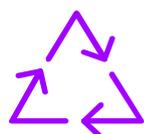
Purpose-led

Pursue self-transformation and balance multiple values



Human-centric

Keenly identify needs and deliver innovative solutions



Resilient Operation

Accurately judge external changes and optimize resource allocation



Tech Leadership

Advanced tech architecture fully imbedded in business

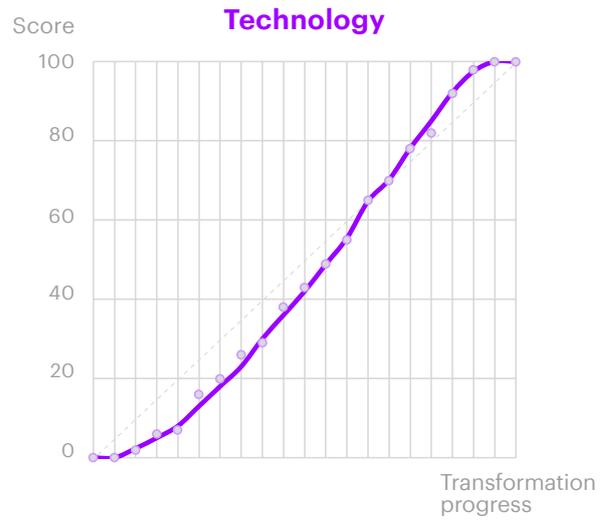
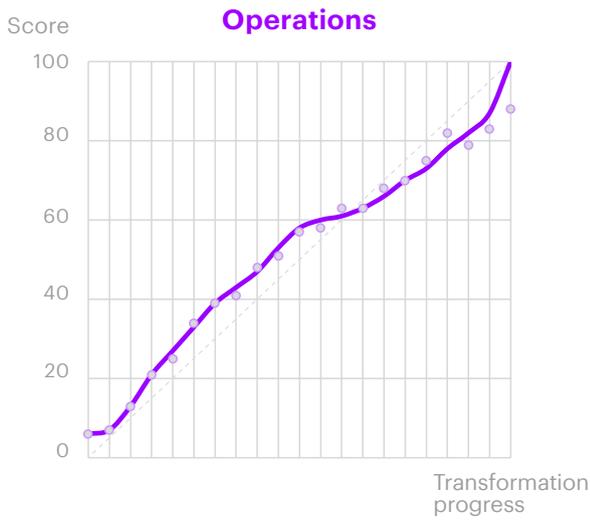
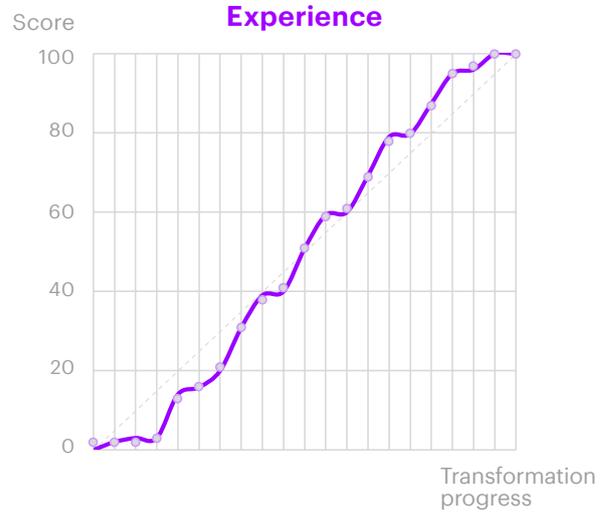
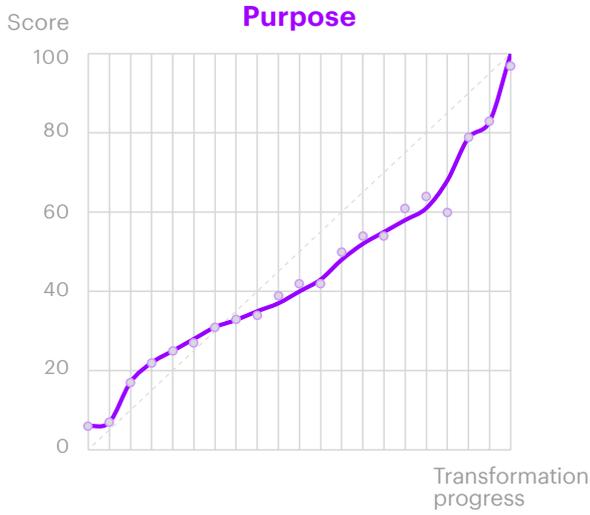
Source: Accenture Research.



Through our analysis, we found different learning curves in these dimensions (see Figure 9). Understanding these different paths to maturity, enterprises can plan their pace of investment accordingly.

- The Purpose dimension involves the ability to balance multiple goals and manage innovation, and it has a long period of “steep climbing”, requiring enterprises to maintain strategic focus and patience.
- The Experience dimension is reflected in the delivery of products and services and the way companies interact and connect with their customers. Experience improvement is a “protracted battle” where businesses need to accurately perceive subtle changes and quickly update iterations accordingly to deliver the best possible experience.
- The Operations dimension focuses on the ability to mobilize all resources, including talent and data, and optimize processes and the organizational structure to meet changing needs. In the first half of the journey, digitalization can quickly reduce costs and increase efficiency. The second half is more challenging, because companies need to create synergies among various functions to further improve operational efficiency and agility.
- The Technology dimension is about the advancement of technology architecture, as well as the extent to which technology is embedded in business context. When the accumulation of technology reaches a certain level, the synergy between technologies will be stimulated, pushing enterprises to technological leadership, and driving business model innovation.

Figure 9: Different learning curves of the four dimensions

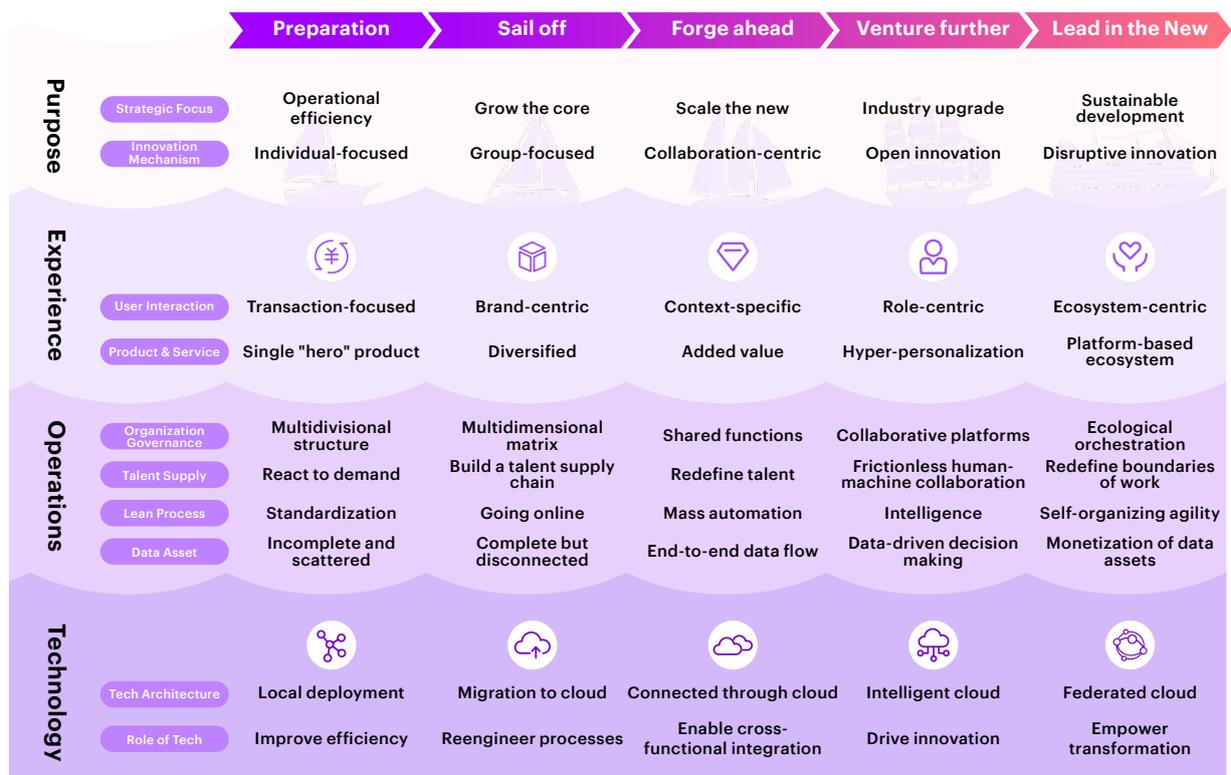


● Data points — Fitted line

Note: The highest score attainable in each dimension is 100.
Source: Accenture Research.

To help enterprises transform, we have drawn on years of practical experience to summarize how companies can evolve on their ways to becoming digital enterprises. This roadmap can guide companies as they chart their courses and realize their digital transformation goals.

Figure 10: Digital Enterprise Evolution Roadmap—stages of maturity over time, across four key focus areas



A person wearing a dark hoodie and a backpack is walking away from the camera on a metal bridge. The sun is low on the horizon, creating a strong silhouette effect and a warm, golden glow. The bridge has a metal railing and a textured metal deck. In the background, there are power lines and a landscape under a cloudy sky.

Digital transformation is an ongoing journey

How can companies respond to short-term pressures while growing their businesses in the long run? We list six key areas of action that can help Chinese companies keep one foot in today and one foot in the future.

01

Leverage open innovation for long-term growth

Businesses are engaging in digital transformation to reinvent their companies. But to what end? In the absence of a clear answer to that question, it is easy to pursue any promising path and inadvertently dilute the potential strength and sustainability of the whole. That's why it's critical for the company's executives to articulate a clear purpose; it will serve as a unifying function—a focal point against which all investments (in technologies, talent, reskilling, and partnerships, for example) can be assessed.

What might such a purpose be? In recent years, it has become increasingly clear to us that the long-term development of enterprises is inseparable from the healthy development of the whole society. The greater the ability, the greater the responsibility. For industry leaders, driving the transformation of the industry while promoting the sustainable development of society has therefore become a new goal.

Innovation culture also needs to be cultivated over a long period of time. On the one hand, it is necessary to establish mechanisms to make innovation a matter of concern for everyone in the enterprise; on the other hand, it is necessary to be open and collaborate with ecosystem partners.

Enterprises need to pay attention to three types of innovation: incremental, breakthrough and disruptive. By continuously improving products and services through incremental innovation, companies can improve customer satisfaction and strengthen existing business activities; by

boldly improving technologies, products and services through breakthrough innovation, companies can rapidly establish emerging businesses; by creating new products and services with disruptive technologies, companies can transform the competitive landscape.

“Digital transformation must maintain the long-term view. Patience is strategic; do not seek to achieve digital transformation overnight but work progressively towards improving the quality and capabilities of the entire enterprise.”

— Lv Qinghai, CIO of Sany Heavy Industry

Consider Sany Heavy Industry, the third largest heavy equipment manufacturer in the world. The company is not only leading the industry's electrification charge but paving the way for China's Fourth Industrial Revolution to go green. In 2021, Sany Heavy Industry added a new electric portfolio focused on developing high-quality, energy-efficient products. To date, more than 20 such products have been launched into the market, earning the company a good reputation while generating close to one billion yuan in revenues.³ For Sany Heavy Industry, electrification goes beyond environmental friendliness to establishing leadership in a new era of efficiency and accuracy.

02

Lead with human centricity

With a clear purpose, it becomes easier to focus on experience, or the ways in which the purpose “lives” for customers, employees and partners.

Consider: Not so long ago, it was possible to surprise and delight customers by enabling them to access information immediately using digital technologies. However, as digitalization continues to deepen and spread, customer expectations have grown apace. Appreciation like “Look what I can do!” has given way to a new question: “Why can’t I ...?”

The same is true for employees and partners. It is becoming more important for companies to fit seamlessly into people’s lives, in large part because they can, and people know it.

Technology adoption promises new capabilities, but unless it meets users’ needs and wants—and unless users are ready and able to leverage that technology—that promise will go unfulfilled. That’s why end-to-end people-orientation is critical.

Businesses need to re-prioritize and re-focus on their current client groups, especially in today’s uncertain business world. It is important to develop products and services around essential demands of key clients. Meanwhile, the key steps also include a precise consumer’s insight mechanism that is powered by data and technology, that can be leveraged to identify potential client groups.

What might this focus look like in practice? It might involve the business inviting consumers to participate in co-creation of different innovative products, or delivery touchpoints. It might involve taking a deep look into the ways in which employees connect with technologies now, to better understand what’s working well and what’s frustrating them. Consider for example the idea of combining intelligent manufacturing and industrial Internet to accelerate product innovation iteration. It’s a promising idea, but what does it ask of employees and partners? Ask: What do our people need to do their jobs well? What do customers need and want to be satisfied?

Companies that stay ahead of the curve on this front will have a clear competitive advantage. We see this happening as companies develop omnichannel services to offer new virtual experiences, as they continually collaborate with partners, and work with employees in new and more flexible ways.



03

Build platforms for a diversified workforce

Operating in a complex and fast-changing business environment is compelling executives to confront new situations and adapt quickly again and again with little respite. With the need for flexibility front and center, how, then, can they ensure the stability that powers efficient operations?

A steady-handed focus on upskilling people with an eye towards future needs will help. Think of this as ongoing foundational support, whereby employees are continually enabled to deal with handling the demand for new technologies.

Adopting a broader view of what talent means is also important. In light of digital progresses, talent today may include people, algorithmic

tools, digital people and robots. Furthermore, such talent needs to be accessed globally, for example, through large-scale functional outsourcing or remote work capabilities.

The key is balancing that first element of people with the second, more encompassing view of talent. To be able to fully mobilize various talents across organizational boundaries, enterprises must have the necessary technology and data skills. Specifically, they need the technology to drive with data, identify the business's needs for talent, help improve skills, complete real-time job matching and achieve a large-scale human-machine collaboration. In addition, they must tap skilled people to leverage that technology.



04

Enhance data-driven intelligent operations

To support enterprises' frequent and complex decision-making, data analytics capabilities are critical. However, data governance could be costly, complex and inefficient, taking a long time to complete.

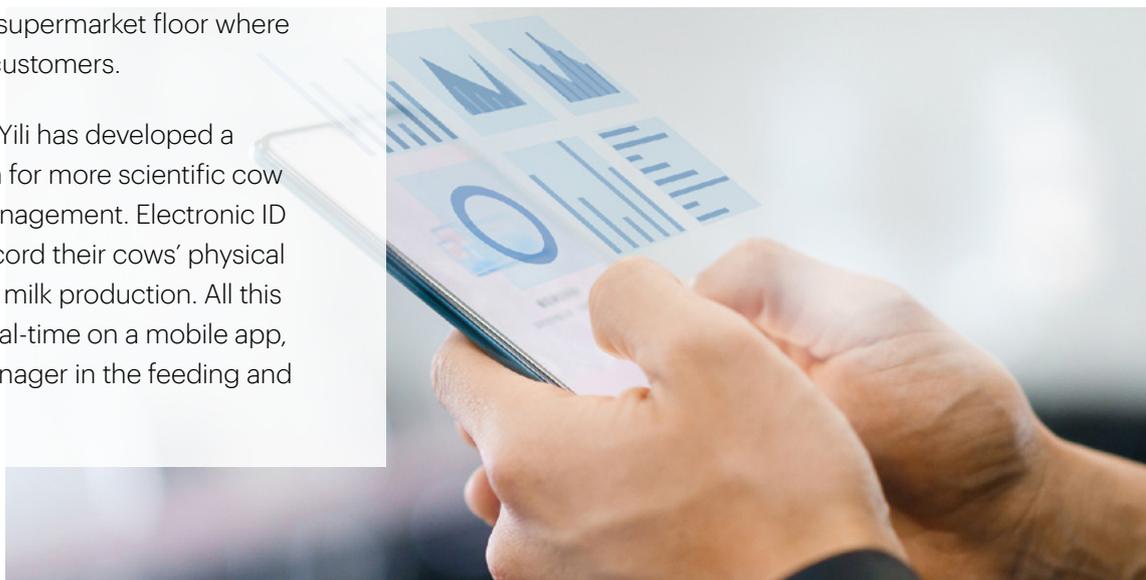
We suggest lean data governance—only collect, manage and apply data that is most relevant to the business, reducing complexity, cost and lead time. To maximize the utility of lean data, cross-departmental cooperation is essential, especially between the business unit and the IT department and along the supply chain. Consequently, the organization will be able to promote a streamlined data flow, create an integrated and intelligent supply chain, and achieve robustness and flexibility.

Take China's largest dairy producer, Yili, for example. As the first dairy company reached top annual sales of 100 billion yuan in Asia, Yili has used data-driven technologies to update its operations at all levels, from the farm to the factory and even the supermarket floor where their products meet customers.

Beginning upstream, Yili has developed a "Smart Farm" solution for more scientific cow raising and health management. Electronic ID tags automatically record their cows' physical indicators, mood and milk production. All this data is displayed in real-time on a mobile app, assisting the farm manager in the feeding and care of the herd.⁴

Milk from the farm is then processed in smart factories equipped with an end-to-end product traceability system. Each can of milk powder is transparently labelled with production data such as production date, batch information and integrity evaluation, enhancing the company's strict monitoring and early warning system that tracks quality risks.⁵

Last but not least, Yili continues to track how customers respond to their products after purchases. Using an intelligent service system, the company is able to follow up with customers after receiving inquiries, collecting further information on the physical condition of the product and so on. Tapping on a well-developed knowledge base, the system is then able to select the most suitable answers to frequently asked questions, providing customer support in a timely and relevant manner.⁶



05

Develop resilience through transparency

In face of challenges such as the energy crisis, inflation, and increased supply and demand volatility, enterprises need to improve their supply chain resilience. Intelligent visibility can help concentrate efforts and investments to enhance supply chains before—as well as during—disruption. Intelligent visibility is the combination of structural and dynamic visibilities supported by analytical techniques and artificial intelligence.

Structural visibility gives companies a snapshot of their supply chains and helps uncover hidden issues, enabling companies to understand such things as suppliers’

locations and their points of manufacturing, suppliers’ and their partners’ logistics routes, interrelationships across the broader supply chain network and potential supply chain risks and weaknesses. On the other hand, dynamic visibility enables a company’s real-time monitoring and immediate responses to events, helping companies see where products are across the supply chain, how plants and warehouses are running, when and where disruptions are happening, and what the disruptions are affecting and how.



06

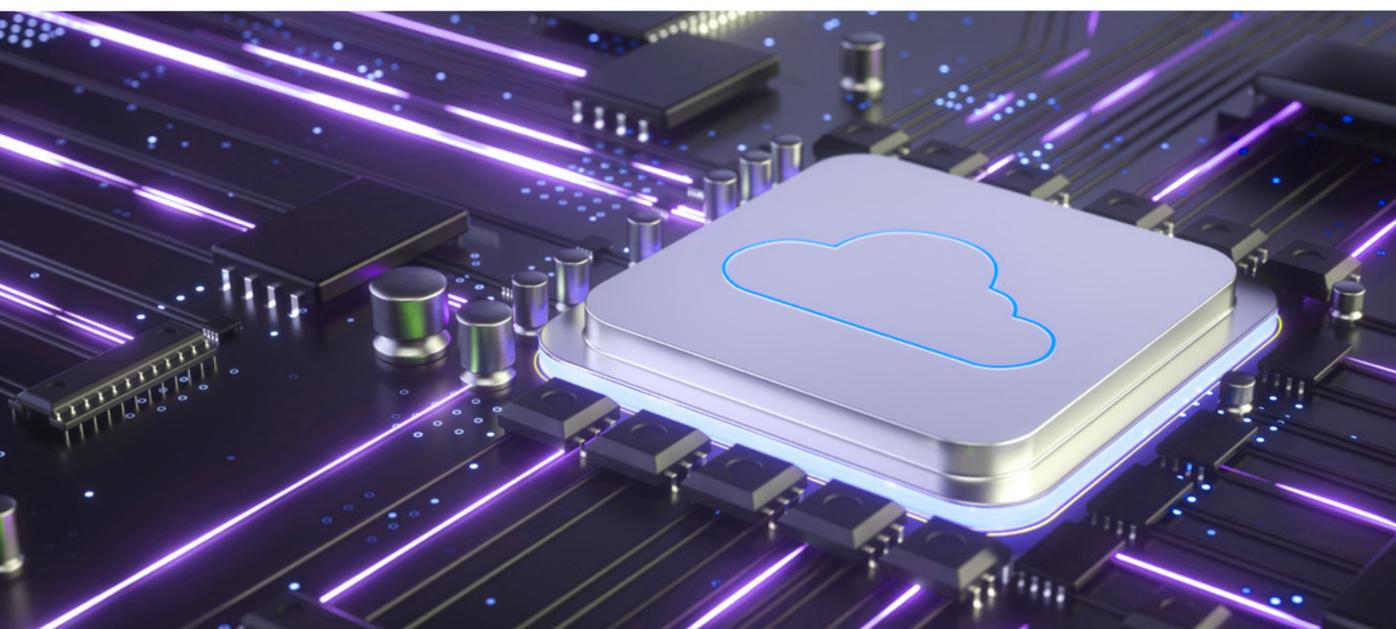
Realize the full potential of technology

Besides the architecture upgrade, to fully release the value of technology, enterprises should go one step further: integrate technology with business activities, enrich multifaceted application scenarios and promote all aspects of the value chain empowered by technology, giving full play to its potential to lead innovation and promote evolution.

Take cloud technology, for example. After migration to cloud, employees can collaborate efficiently despite geographic constraints and business partners can establish closer connections, ultimately enabling companies to deliver better products and experiences to their customers. Moreover, cloud can enlarge the scope of data analytics by bringing all parts together to engage in innovation, including

data, employees, partners, processes and technologies. As such, cloud allows enterprises to obtain new insights both within and beyond their organizations.

As companies update their digital technology and an increasing number of technologies become available, enterprises need to identify the ones that will best serve current and future needs, to realize the power of that technology to drive their business. Ultimately, the adoption of technology needs to be at least one step ahead of business development, to ensure that it doesn't act as a drag. To this end, we see more companies not only hiring Chief Information Officers, but also for newer roles including Chief Data Officer and Chief Transformation Officer.



The journey of evolution never stops

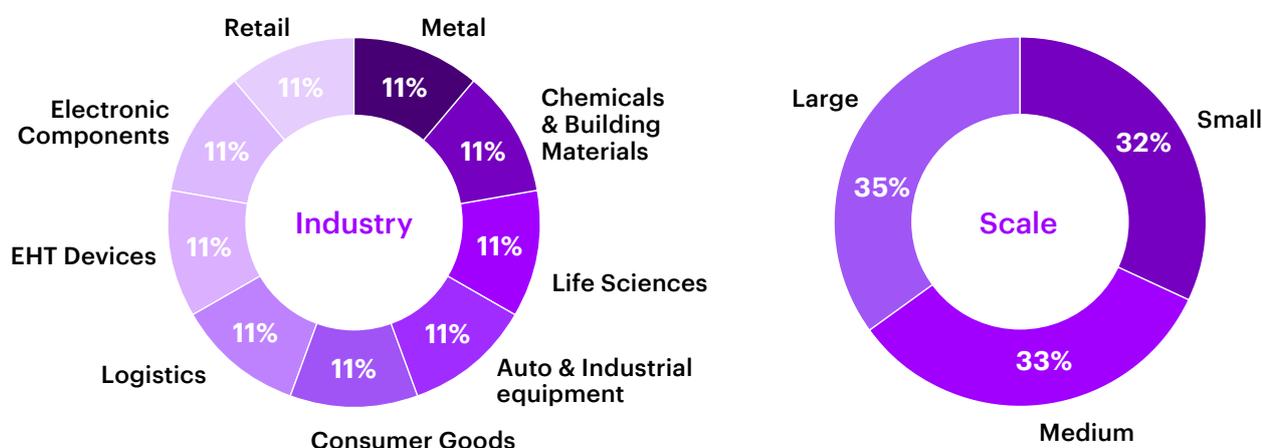
In the past two years, the resilience of organizations has been tested like no other time in recent history. The path to resilience is through Total Enterprise Reinvention now and in the future. As an epochal shift that demands every part of every business be transformed by technology, data and AI, we believe that Total Enterprise Reinvention is the most profound business change since the industrial revolution. It will require new works of working and engaging with customers, and will lead to new growth opportunities.

Digital transformation is even more urgent than before as enterprises face the future. Rather than scaling back, businesses must strengthen their resolve and find a foothold for sustainable development in the midst of short-term challenges.

Methodology

About the survey

Through survey and executive interviews, as well as financial and text analysis on publicly available data, a comprehensive evaluation was conducted on the digital transformation of Chinese enterprises. Survey data were collected from March 2022 to May 2022.



Note: Based on the classification standards carried out by the National Bureau of Statistics of China.

Multi-dimension performance evaluation model

The framework uses four equally weighted metrics:

- **Ability to achieve high shareholder returns:** Compound annual growth of total return to shareholders (TRS), over one, three, and five years;
- **Ability to achieve high return on investment:** One-, three-, and five-year return on invested capital (ROIC);
- **Ability to capture future value:** Change in future value (FV) over five years;
- **Ability to sustain leadership position:** Consistency of performance on high shareholder returns, return on investment, and capturing future value dimensions over five-year periods.

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For more information about Accenture, please visit its corporate homepage accenture.com and its Greater China homepage accenture.cn.

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