



is AI a craze or crucial: what are businesses really doing about AI?



movements power digital transformation



introduction


Digital transformation has emerged as a “strategic imperative” for all businesses, regardless of size or sector. In 2023, the need for success significantly intensified.

Strong economic headwinds resulted in organisations accelerating their spending on digital transformation to build resilience and streamline operations, as well as keep pace with competitors. This, coupled with the release of freely available and easily accessible Artificial Intelligence (AI) platforms, has also had major implications for businesses, forcing them to reimagine a digital future beyond the confines of the current ways of working.

The adoption of AI and Machine Learning (ML) is evident across all organisations. In late 2022, Generative AI became a household term and has since seen mass adoption by both consumers and businesses.

As the year draws to a close, we look at how successful businesses have been at accelerating their digital transformation journeys. What’s worked, what hasn’t, and what do companies think the future holds? Where will they take their digital transformation into 2024? Or are they all still a bit confused?

To find out, we asked our experts Ian Ray, Head of Data, AI, ML; Greg Duckworth, Principal ML Consultant; Damien Jade Duff, Senior ML Consultant and Marc Peiser, Principal Cloud Consultant for their insights. We also commissioned independent market research agency Vanson Bourne to conduct a study examining how businesses were navigating the digital transformation landscape. In July 2023, 150 senior decision makers from the UK were interviewed to find out. These spanned a range of sectors, including financial services, retail, distribution & transport and energy, oil/gas & utilities.



The study findings show that AI has upended typical approaches to tech investments. With a lot of hype around AI it's unsurprising that there's an incredibly strong appetite from businesses to move fast on investing in and implementing AI and ML strategies, despite their reservations. This bucks the trend of typical technology investment cycles, which require a strong proof of concept and return on investment before decisions are made. The research has found that appetite for AI and ML appears to be driven by decision makers' fear of missing out ("FOMO") to competitors by not adopting new technologies and moving away from legacy systems.

However, you must not lose your head over AI and should only invest in the technologies that will have true business impact. To that end, we've taken a deep dive into the use cases and motivations for adopting AI solutions, to shed some light on where businesses are in their digital transformation journey - is it all talk or are they really taking action?

harnessing the power of artificial intelligence and machine learning

Our research found that **99%** of organisations are looking to use AI or ML to seize new opportunities. Appetite is particularly strong in the retail, distribution and transport sector, where **97%** of organisations report either 'some' or 'significant' adoption of AI, compared to **91%** of organisations in financial services.

Almost all organisations (**98%**) have some vision for the use of AI, and the majority are planning to implement it within the next six months. Use cases from enhanced analytics, fraud detection and automation have already been adopted by more than half of all organisations surveyed. Forecasting and smart control systems are the least implemented use cases, although both are likely to be harnessed within the next **1-2 years**.

Despite so many organisations reportedly seeking to harness AI, there are some discrepancies in how firm their vision is for how AI will be harnessed within the organisation. For example, across retail, distribution and transport sectors, seven in ten organisations strongly agree that their organisation has a vision for AI, with the remaining firms unsure exactly how and where to deploy it. When looking at financial services businesses, this figure is significantly lower, with only **58%** stating they strongly agree that their organisation has a vision for AI.

“Our data reveals a growing disconnect between interest in AI and developing a strategic roadmap. Financial services in particular may need more leadership in articulating an AI vision and strategy. Without a refined strategy, businesses cannot expect to unlock the full suite of benefits delivered by AI.”

- Ian Ray, Head of Data, AI, ML

however, there are mixed levels of confidence in implementing AI and ML

One plausible explanation for hesitancy around AI stems from mixed levels of confidence in implementing AI.

49% of senior decision makers have low confidence in implementing AI/ML into their organisation, despite **98%** of organisations having a vision of how they will use it. So while there may be a vision, it might not align with what the technology and change management teams deem possible right now.

Notably, smaller organisations are broadly more confident in implementing AI, particularly in areas such as personalisation and intelligent document processing. This low confidence could be driven by the challenges that larger organisations face; despite greater resource and capacity, they are likely to experience greater security threats than small organisations.

49% of decision makers said that they have concerns around data security and privacy, which emerged as the top driver of low confidence among organisations.

Other cited concerns include the difficulties of finding a trusted vendor to work with (**31%**), as well as legacy technology holding organisations back (**29%**) and a perceived low skill level within the business (**24%**).

how can confidence in the implementation of AI and ML be improved? Three tips:

It's clear that a lack of confidence could hold organisations back from reaping the benefits of AI and ML. Here are three steps businesses can implement today to maximise confidence in AI, ML and other breakthrough technologies:

- 1. Clearly communicate the business benefits.** Organisations should educate stakeholders on specific use cases, potential ROI, and how AI can enhance operations. Knowing the tangible benefits will build enthusiasm and support.
- 2. Invest in training around AI best practices.** To implement AI responsibly and effectively, staff need skills in data preparation, model validation, ethics, and more. Training will boost competence and alleviate concerns.
- 3. Perform controlled testing first.** Many people suffer from 'unknown unknowns'. By piloting AI projects in low-risk environments to demonstrate capabilities, companies can quickly build trust. Small-scale testing can uncover challenges early and pave the way for wider deployment.

what are the ethical challenges facing businesses with regards to AI and ML?

The promise of AI and ML presents immense opportunities for business innovation. However, realising this potential requires an ethical approach.

A primary concern is ingrained bias. If the data used to develop AI reflects societal discrimination, the models will propagate it. Businesses must audit algorithms, processes and data to guarantee fairness. Failing to address bias risks legal liability or public backlash.

In the same vein, AI is not designed to think in an alternative way from how it is programmed, so can contribute to disparities, as well as dehumanisation towards issues which might not align with a business, as a socially responsible actor, mission, vision and values.

Transparency is also vital to democratising the use of the technology. Users should understand an AI system's capabilities and limitations before deployment, preventing unintended consequences. AI solutions should have built-in capabilities that allow stakeholders to understand and mitigate the uncertainty and bias in their outputs. The data

sources used to train out-of-house developed AI models, such as OpenAI's LLM products, should be listed and made available to users, as well as the class of algorithms used to generate content. Hand in hand with transparency, privacy, robust data governance and cybersecurity controls are essential to prevent breaches.

Lastly, malicious applications of AI like large language models (such as WormGPT and FraudGPT) or deepfakes represent another ethical challenge. These tools are designed to exploit the capabilities of AI for nefarious purposes, such as spreading malware or conducting fraudulent activities. Just as we work diligently to ensure that AI technologies are unbiased, transparent, and robust, we must also be vigilant against the potential misuse of these technologies.

Ultimately, businesses carry a great responsibility in steering AI's development ethically. Ongoing dialogue with stakeholders, coupled with a diligent governance approach centred on transparency, accountability and human welfare - including people's agency - will enable companies to deploy AI in a principled manner. This thoughtful leadership will allow businesses to unlock AI's benefits while building public trust.

accelerating AI transformation with external support

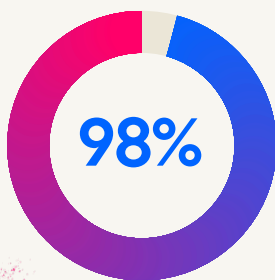
With businesses continuing to be squeezed by external economic turbulence, digital transformation is a key strategy to build resilience for 2024 and beyond.

It's clear that while organisations can see the potential of AI and ML, they currently do not fully understand what it can do for their organisation. In fact, **97%** of organisations agree that when they undertake transformation programmes they could have a better understanding of what it is they need to solve.

As such, the need for external support from digital transformation consultancies is particularly prevalent among retail, distribution and transport organisations. Digital transformation advisory services will likely grow in popularity in 2024, with **98%** saying that they would benefit from advisory services.

Over the past two years, more organisations (**43%**) have called for strategic support with the issues they are trying to resolve – up from **19%** in 2021. Pressure from customers is cited as the most common trigger for hiring a digital transformation consultancy, increasing by **17%** points over the past two years.

This could be driven by the prominence of AI in the media, meaning that customers are much more aware of AI's capabilities and therefore spearheading change.



of respondents agree that they **would benefit** from advisory services on digital transformation.

conclusion

While our results highlight that there is great excitement generally around the evolution of AI, in short, businesses aren't quite sure what to do with it yet. There is a conflict between wanting a first-mover advantage, but also waiting to see what works best and what is around the corner before making hefty investments. Confidence issues around the success of deployment are giving business leaders pause for thought. There's a lot to consider, from security concerns and integrating with legacy technologies through to the wider team's skills and how the technology will be used across the organisation day-to-day.

Customer pressure also plays a part, with businesses feeling like they should hire a consultancy to invest in AI. However, contrary to popular belief, it may not be that the customer is always right and business leaders need to take a step back to look at what is best for their business before jumping in and buying the latest trendy tech based on optics and fear of missing out.

With a lot of ifs and buts, rapidly evolving capabilities of the technology and external noise around AI organisations need to take a step back and assess the full picture. Using a consultancy early in the digital transformation journey can help decision makers understand both the strategy behind - and implementation of - digital transformation programmes. Armed with these insights, they can make informed decisions with a clear pathway to return on investment and mitigate the perceived risks of investing in a new way of doing business.

This means businesses can still achieve their ambitions to move fast and harness the power of AI, but it will be done with purpose rather than panic. In the next six to 12 months, the market will continue progressing at pace, so organisations looking to gain a competitive advantage must increase their understanding and confidence in AI and ML to seize the opportunity it offers their business.

why work with Daemon?

- Where Daemon adds value and enables our clients is by being able to work with you to understand your needs and develop solutions that will have business impact.
- Daemon can take all employees on the organisation's digital transformation journey, to ensure rollouts and uptake from employees is as streamlined as possible.
- Daemon can also help organisations navigate issues around AI/ML, such as ethics in the use of AI, measuring the effectiveness of AI/ML strategies and integrating new technologies with legacy systems (or helping migration away from old technology).

methodology

Daemon commissioned Vanson Bourne, an independent market research agency, to conduct both the quantitative and qualitative research upon which this report is based. A total of 150 decision makers were interviewed across the UK in July 2023.

The decision makers were from both IT (92) and non-IT (58) departments in order to reveal their different opinions about digital transformation. All decision makers were from organisations of over 500 employees. Interviews were conducted online using a rigorous multi-level screening process to ensure that only suitable candidates were given the opportunity to participate.

about Daemon

Taking a client-centric approach to digital transformation, Daemon offers solutions that help people across an organisation embrace technology, such as data, AI/ML, cloud and engineering. Founded in 2007, Daemon is a technology consultancy with a vision to use technology to make the world a better place, by creating movements that drive digital transformation. Its customers include Sainsbury's, Superdry and London Metal Exchange. Get in touch to power the change you need <https://www.dae.mn>.

about Vanson Bourne

Vanson Bourne is an independent specialist in market research for the technology sector. Their reputation for robust and credible research-based analysis is founded upon rigorous research principles and their ability to seek the opinions of senior decision makers across technical and business functions, in all business sectors and all major markets. For more information, visit vansonbourne.com

