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Six Steps To Become A Digital Business

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Business leaders don't think of digital as central to their business because in the past, it hasn't been. But now your customers, your products, your business operations, and your competitors are fundamentally digital. A piecemeal strategy of bolting on digital channels or methods is no longer sufficient. Instead, you must think of your company as part of a dynamic ecosystem of value that connects digital resources inside and outside the company as needed to compete. This report shows how you must harness digital technologies, both to deliver a superior customer experience and to drive the agility and operational efficiency you need to stay competitive.

DIGITAL TRANSFORMS THE GAME OF BUSINESS

As a business leader, do you get the feeling that you're no longer playing the same game that you once were? It's not you; the world has changed. The things that used to set companies apart — such as economies of scale, distribution strength, and brand — are far less potent than they used to be. Why? Because digital technology has fundamentally changed two things: the dynamics of the markets in which you operate and the speed needed to remain competitive.

- **Digital has changed your markets.** Your customers aren't who they used to be. Digital touchpoints permeate every aspect of your customers' lives — how they watch TV on Netflix, how they research new products on Pinterest, how they check their balance on PayPal, or how they rate a hotel on TripAdvisor. Your customers are digital; by 2017, 74% of the US adult online population will own smartphones, and 46% will own tablets. Your channels are digital; by 2017, digital touchpoints like mobile devices will influence 50% of US retail sales, and 10% of all sales will be online. And your competitors are digital. Ask Weight Watcher International, which recently blamed reported disappointing results in part on consumers turning instead to apps like Lose It and MyFitnessPal.
- **Digital has changed the way you operate.** Your products are digital. Digital technologies create opportunities to add new services to physical products, like Rolls-Royce jet engines; using information from sensors in its products, the company now leases “hours of propulsion” to its airline customers, reducing costs and downtime. And digital technology brings the opportunity to generate deeper insight than ever before. For example, New England Biolabs augments the sales of molecular biology products with a digital freezer that tracks which researchers use which genetic materials. Your employees are using digital, mobile tools in the workplace, and digital permeates your business operations.

GO BEYOND DIGITAL BOLT-ONS TO CREATE A DIGITAL BUSINESS

If digital is so pervasive a force, how can businesses change? Companies started by launching departmental efforts in marketing, eBusiness, or technology management, bolting them onto the existing business. But eventually, treating every new digital channel as another project generates organizational and technical chaos. This chaos intensifies the operational challenge: that your organization's structures, technology, and metrics are siloed into functional building blocks, each striving for internal efficiency and fighting for scarce resources (see Figure 1). The “digital bolt-on” way of thinking makes it much harder to respond to change in agile ways. Your technology management teams, spread thin chasing projects to maximize the prospects of one department or another, are in a downward spiral.

Your business needs a reset. You need to look at digital holistically. You need to transform your business by applying digital thinking across everything you do — how you win, serve, and retain customers; how you operate your internal processes; and how you source business services. In short, you must become a digital business.

Digital businesses continuously exploit digital technologies to both create new sources of value for customers and increase operational agility in service of customers.

Figure 1 Traditional Business Thinking Hinders Digital Transformation

	Traditional business	Digital business
Digital touchpoints	Bolt-on	Digitally integrated products and services
Organizational alignment	Functional efficiency	Cross-functional agility
Technology attitude	Safety and cost reduction	Speed and innovation

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Source: Forrester Research, Inc.

Digital Businesses Succeed By Embracing Dynamic Ecosystems Of Value

To become a digital business, you must learn to think as your customers do. Right now, your customers are assembling the solutions to their problems with a collection of instantly available digital products and services from your suppliers, partners, digital disruptors, other customers, and competitors. They can do this because every company, every digital aggregator, every supplier, and every retailer is building apps and sites, making it effortless for customers to pick from a menu of everything they need. We call this new world a “dynamic ecosystem of value” (see Figure 2 and see Figure 3).

A dynamic ecosystem of value is made up of digitally connected products and services that combine to meet customer needs, delivering more value than the sum of their parts.

As our customer experience research clearly shows, delivering a great experience happens only in the context of a company’s ecosystem of partners. With digital tools in the hands of customers, that ecosystem is dynamic — and often out of a company’s control. But your success demands that you embrace this new ecosystem and become a part of it. What exactly does this look like? It looks like frequent travelers assembling trips with apps from Expedia, Hipmunk, TripAdvisor, Uber, and individual airlines and hotel operators. Or Fidelity Investments creating a dynamic ecosystem that lets its customers view *all* their financial accounts and news feeds as well as airline miles and loyalty accounts in one place. Or Argos, a UK retailer, working with Shutl, a network of UK couriers, to offer 90-minute deliveries of eCommerce purchases at an attractive price. In these cases, disruptors were already helping customers assemble their own solutions; companies responded by embracing that ecosystem.

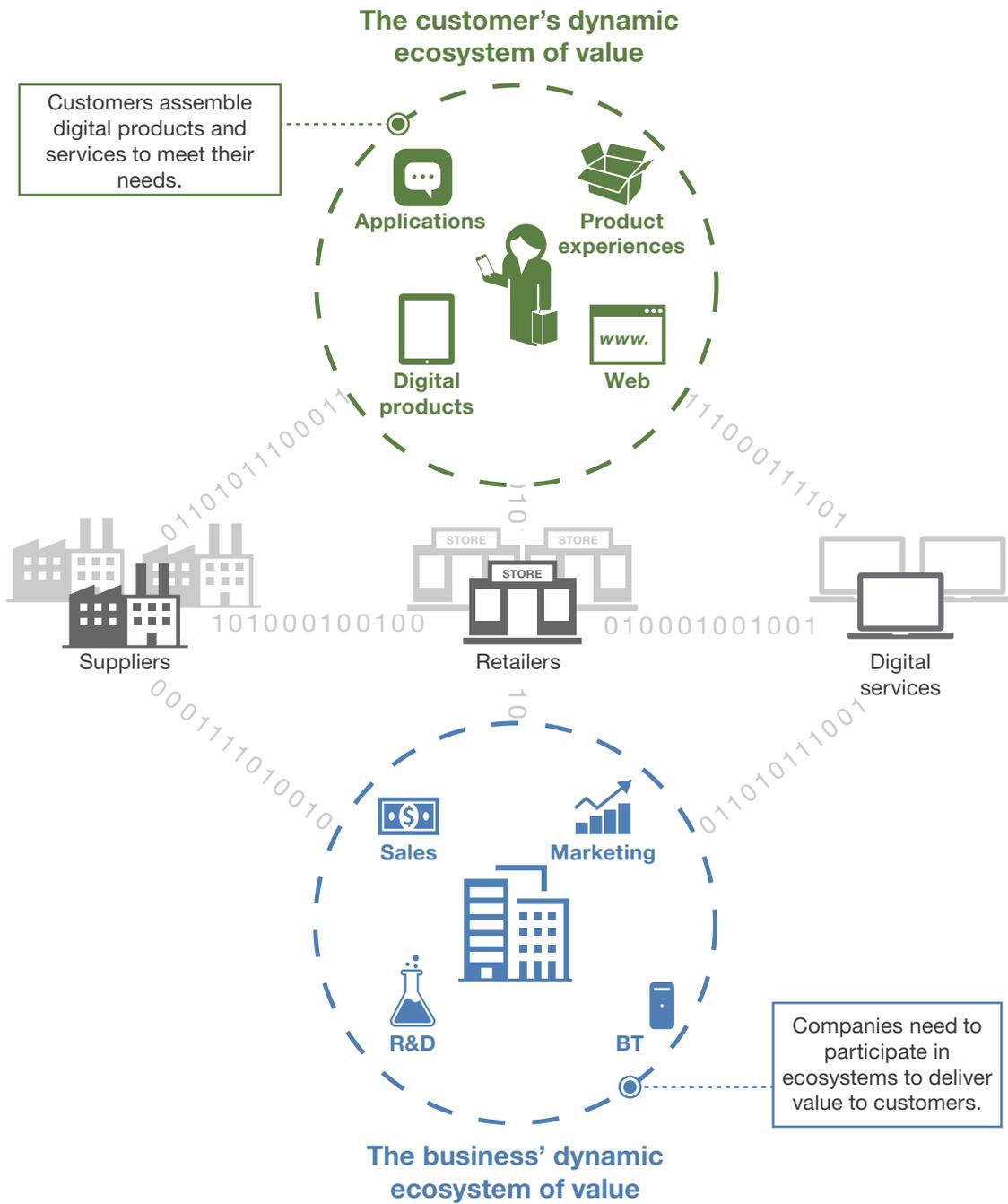
Figure 2 A Traditional Linear Value Chain



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Source: Forrester Research, Inc.

Figure 3 Dynamic Ecosystems Of Value



How Dynamic Ecosystems Help You Thrive On Digital Change

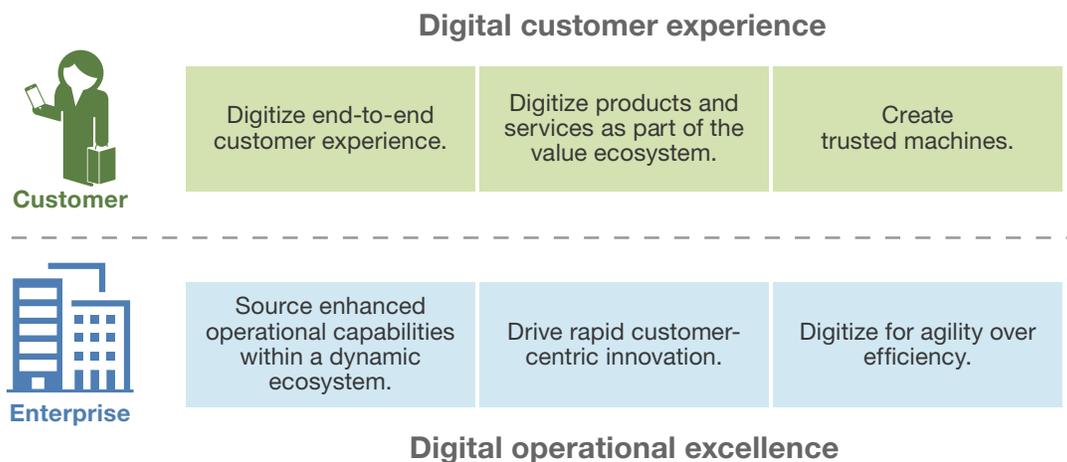
The biggest transition that digital forces upon you is the shift from a linear value chain to the creation of ecosystems of value. It means re-envisioning your business not as a standalone entity, but as part of an ecosystem of suppliers that customers assemble according to their needs and an ecosystem of collaborating businesses sharing data and services. This challenges the nature of your firm's relationships with both your customers and suppliers, but it enables you to:

- **Increase the value you provide to your customers in new ways.** By positioning your products and services in the context of the customer's value ecosystem, you can open up new revenue streams. For example, Walgreens opened up its photo-printing capabilities via a digital interface, allowing developers of many smartphone camera apps to let their users print directly at Walgreens. Walgreens now generates 15% of its photo-printing business from mobile devices. In Germany, Commerz Finanz's APIs opened up its consumer credit agreement process, enabling electronics retailers like Media-Saturn Group to offer loans right at the point of sale.
- **Drive enhanced customer value through agility and smart sourcing.** Digital isn't just about new external connections; it's about having the operational efficiency to act on them. This goes beyond lean management outsourcing. Once you're wired into ecosystems of value, you can quickly pivot to add new capabilities. For example, the retailer Tesco has built a dynamic network of drop-shipping suppliers using delivery management vendor MetaPack. As a result, Tesco added more than 50 new suppliers and a quarter million new items shipping directly to consumers under the Tesco brand — without increasing costs significantly.

TAKE THESE SIX STEPS TO BECOME A DIGITAL BUSINESS

Many firms proudly point to their mobile app and proclaim “Hey, we’re digital!” While they may be driving incremental revenue, all they have done is bolt on another touchpoint. Real digital businesses go much further, integrating the two sides of digital strategy: digital customer experience (DCX) and digital operational excellence (DOX) (see Figure 4).

Figure 4 Two Key Imperatives: Digital Customer Experience And Digital Operational Excellence



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Source: Forrester Research, Inc.

Digital Customer Experience Creates Lasting Value

Digital businesses understand that if they are to win in the age of the customer, customer experience is their only differentiator. Success means investing in customer experience as a discipline within your organization. Your customers’ interactions with your products, your services, and your digital touchpoints are now part of an experience ecosystem that defines customer value. Rather than treating digital as a channel, focus on delivering digitally enhanced experiences that add value in the context of the customer’s needs. This means you must:

- **Map experiences within each customer’s ecosystem of value.** Digital businesses use journey mapping to find opportunities to create helpful and enjoyable digital experiences, applying digital where it can best enhance value. For example, Nikon’s app not only helps photographers get the best out of their camera but also upsells new accessories based on what camera features customers are actually using. These firms use digital to create seamless, proactive brand experiences across the customer’s ecosystem.
- **Digitize products and services to enhance the ecosystem of value.** Digital businesses think like software companies, reimagining products and services as digital experiences augmented by the physical world. Working with priceline.com, Chevrolet gives OnStar users access to local

hotel bookings from their car. FedEx SenseAware exposes data about a package's environment to customers via an app, allowing them to track the condition of sensitive packages in real time. Extending products and services with digital technologies makes it possible to take greater mindshare within a customer's ecosystem of value.

- **Create trusted machines to automate value creation.** Digital businesses trust algorithms to make choices that change customer experiences, relying on human intervention only by exception. This allows them to augment their customer experience in real time. Mercedes-Benz uses digital sensors to improve driving and potentially save its customers' lives by braking when the car detects an emergency. Netflix uses an intelligent engine to deliver automated movie recommendations. Building trusted machines allows digital businesses to scale high-value digital experiences.

Digital Operational Excellence Increases Agility

Digital business isn't just about customer experience — it's also a way to drive operational agility. Digital can increase speed-to-market, make employees more productive, and promote leaner processes and more effective use of assets. When British Airways gave cabin crews iPads, they expected the primary benefit to be an enhanced customer experience. But now staff with iPads also track and highlight maintenance issues with aircraft, preparing ground crews to be ready with replacement parts. Like British Airways, you can embrace digital operational excellence. Here's how:

- **Source enhanced operational capabilities within your ecosystem.** Digital businesses leverage digitally connected suppliers to deliver commodity or specialized services outside their own expertise. A great example: Mobile operators Telefónica and Telenor created a value ecosystem called BlueVia to connect ecosystem partners like Electronic Arts, Facebook, Google, Microsoft, and Samsung. BlueVia opens up the combined data of 460 million subscribers to allow developers to build new services for consumers and to use Telefónica's billing platform to take payments.
- **Drive rapid customer-centric collaboration and innovation.** Digital businesses connect customers and employees, forming dynamic, cross-functional teams that aren't bound by traditional rules. Digital virtualization allows firms like P&G to test product packaging and shelf layouts with real customers in a virtual store before committing to costly manufacturing. German company Fidor Bank engages its customers in the social co-creation of products and services, allowing customers to help define new app functionality and new banking product features like interest rates or cash back.
- **Digitize for agility over efficiency.** Embrace dynamic ecosystems, and you can connect your company and your suppliers together to rapidly and automatically respond to changing conditions. Bosch, for example, is leading a consortium of German manufacturers to define

a standard for dynamic, automated manufacturing that it calls Industry 4.0. Bosch aims to create Internet-connected, self-optimizing factories that can automatically adjust to machine downtime or changes in supply of materials or order demand. This digital ecosystem creates a dynamic supply chain, all the way from raw materials providers to end consumers.

DIGITAL BUSINESS IS A JOURNEY, NOT A DESTINATION

Some firms, like Amazon, were born digital — they find embracing these digital principles far easier. Others strive for digital mastery. And some — like those in industries blindsided by digital disruption — have digital urgency thrust upon them. But regardless of your starting point, thriving in the face of disruption is possible. Kodak, once one of the world’s most recognized consumer brands, saw its core consumer market devastated by digital disruption, but it restructured and refocused on its commercial business and has now begun its journey to become a new digital business. Even the most entrenched and traditional business is capable of transformation.

WHAT TO DO NEXT

Tomorrow’s winners will be those who control the ecosystem and can tap its power. They’ll leach profit away from the losers, changing the power dynamics of global business.

Find out if your firm is ready to face the digital challenges ahead by visiting [Forrester’s Digital Business site](http://forrester.com/digital) at forrester.com/digital, where you can:

1. Watch Vice President and Principal Analyst Nigel Fenwick talk about the digital challenge.
 2. Take a brief self-assessment to identify your firm’s digital business maturity.
 3. Register to view the webinar “Your Digital Business Transformation” with Nigel Fenwick and Martin Gill.
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