

IBM Institute for Business Value



Overview

Individuals and businesses alike are embracing the digital revolution. Social networks and digital devices are being used to engage government, businesses and civil society, as well as friends and family. People are using mobile, interactive tools to determine who to trust, where to go and what to buy. At the same time, businesses are undertaking their own digital transformations, rethinking what customers value most and creating operating models that take advantage of what's newly possible for competitive differentiation. The challenge for business is how fast and how far to go on their path to digital transformation.

Digital transformation

Creating new business models where digital meets physical

Customer expectations have placed tremendous pressure on business leaders to change the way they set their strategies and run their organizations. New requirements to incorporate information and interactivity quickly drive up costs and complexity.

Business leaders have long used information technology to improve productivity and efficiency, reach new markets and optimize supply chains. What's new is that customer expectations have also changed. People everywhere are using social networks to find jobs and restaurants, lost friends and new partners – and, as citizens, to achieve common political goals. How can businesses best respond to this shift? How can they take advantage of the opportunity to innovate and grow? And how can they do all this cost efficiently?

In our analysis of leading companies and our work with clients, we have found that companies with a cohesive strategy for integrating digital and physical elements can successfully transform their business models – and set new directions for entire industries.

They do this by focusing on two areas: reshaping their customer value proposition and transforming their operating models.

- **Reshaping the value proposition** – Products and services, information and customer engagement can be reshaped using the new capabilities for mobility, interactivity and information access. The challenge then becomes how to monetize these new customer value propositions.



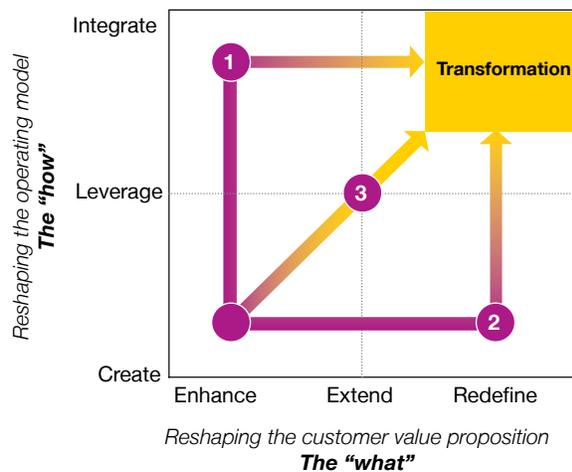
- **Reshaping the operating model** –The operating model can be realigned so that customer preferences and requirements inform every activity in the buying and selling chain. Doing this requires integrating all business activities and optimizing how data related to those activities is optimized.

Up to now, most organizations have focused on one of these areas at a time based on specific initiatives. Taking a more holistic and integrated approach, a third path combines the two focus areas, simultaneously transforming the customer value proposition and organizing operations for delivering that value.

Determining the best path to transformation requires a thorough understanding and evaluation of several factors:

- Where products and services are on the physical-to-digital continuum in the industry
- Mobility and social networking adoption levels and expectations of customers
- Strategic moves by other industry players
- The degree of integration at every stage of the transformation – between new digital processes and legacy, physical ones.

Paths to digital transformation



- 1 Path 1**
Create and integrate digital operations first. Then address the customer value proposition to achieve full transformation.
- 2 Path 2**
Enhance, extend or reshape the customer value proposition with digital content, insight and engagement. Then focus on integrating digital operations.
- 3 Path 3**
Build a new set of capabilities around the transformed customer value proposition and operating model in lock-step.

Source: IBM Institute for Business Value analysis.

Figure 1: Digital transformation requires strategic development of the value proposition and the operating model.

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Businesses aiming to generate new customer value propositions or transform their operating models need to develop a new portfolio of capabilities for flexibility and responsiveness to fast-changing customer requirements: deliver business model innovation, drive customer and community collaboration, integrate cross-channel, get insights from analytics, optimize the digitally enabled supply chain and enable the networked workforce.

The path to transformation will vary by industry. Those able to implement new business models based on customer input can win first choice of talent, partners and resources. As industry leaders, they are likely to stay far ahead of new and existing competitors.

How can IBM help?

- **Innovation and business value** – Our business strategists leverage a proven approach and a base of deep research to help clients innovate their business model by rethinking how customers define value, and understanding the changes organizations must make to their value chain in the digital era.
- **Market and customer management** – Our consultants assess, analyze and build strategies for clients that address new and existing markets, improve marketing, sales, service effectiveness and optimize cross-channel interactions to create a differentiated customer experience.
- **Operating and organization model** – Our industry subject matter experts help clients design and establish the ideal operating model and processes, supply chain strategy and organization to more effectively connect, collaborate and conduct commerce.

To learn more, download the full IBM Institute for Business Value executive report at www.ibm.com/gbs/digitaltransformation.



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