

Digital - The New Wave of Transformation

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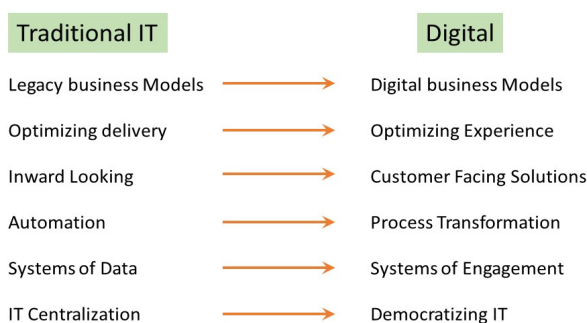
Digital is the new kid on the horizon that promises a new wave of transformation. Firms are excited yet wary – what exactly is digital? Can it truly impact business? What does it entail to launch the firm on the path of digitalization? In this first part of a 3-part series, we explore what digital is, and, why you should consider digital seriously.

If one were to rank one of the most used terms in technology today, the pole position would easily be taken by the term “Digital”. It is a widely used (and abused) term and can mean different things for different companies, with no single definition for “Digital”. So what exactly is digital?

Defining Digital

While there are individual definitions to ‘digital’, a broad understanding of Digital implies the leveraging of technology to deliver a business outcome - be it generating new revenue streams or reducing cost or significantly altering customer experience. Business impact is the core of digital. In our opinion, there are **six key defining characteristics** (see Fig 1) that make it so compelling and different from traditional IT.

Fig 1: Six Key Characteristics of Digital Transformation



#1: Digital Enables New Business Models

As the definition suggests, true ‘digital’ enables new business outcomes, be it new products (e.g., smart products), new services (e.g., remote monitoring) or substantial changes to business model.

Many firms are “born digital”, especially consumer-facing ones, with the aim to deliver a value proposition led by technology. The best examples of such digital-by-birth companies are Amazon, Uber and Airbnb, leveraging digital technology to completely revamp the process of booking a cab or booking a hotel room, thereby disrupting the personal transport and the hotel industry.

#2: Digital Optimizes Experience

A truly Digital experience is the one that is personalized, relevant and available in real-time, and through a channel of choice. Digital enhances experience – to customers, to vendors and to stakeholders.

A digital bank account opening would not limit itself to digitizing existing process but look at connecting the various dots (e.g., Aadhar, Credit Score) to assess customer profile in real-time and customize services (and rates), with minimal intervention. Note that this goes beyond effort reduction to enabling outcomes (in this case, real-time rate offer) otherwise not possible.

#3: Digital is Customer/Market Facing, not just Inward Looking

Traditional IT puts internal processes at the heart of any IT system implementation. Even a CRM is a system representation of how the firm interacts and deals with a customer. By taking this inside out view of the customer, the system has the same shortcomings as existing internal processes.

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Digital processes on the other hand place the customer at the heart of any transformation. This customer centricity manifests itself in many ways – from multi-channel access to customer analytics to customer focused experience. Customer experience is at the heart, with technology and internal processes playing enablers.

#4: Digital is Process Transformation, not just Automation

Pure automation of existing processes, by putting IT systems to replace physical processes is not Digital transformation. Neither is Digital about throwing more technology at a problem and hoping it solves the business issue. It is also not adding more processing capability or increasing memory or adding better hardware. These are things that IT managers do for increased levels of automation, but do not equate to true digital transformation.

Digital transformation is first about big picture thinking, looking at where new opportunities lie, and using digital technologies to build processes to achieve defined outcomes. More importantly, Digital transformation is a journey, with multiple connected intermediate goals, building an ecosystem of technologies that allow for processes, which would not have been possible with traditional IT.

#5: Digital is about 'Systems of Engagement', not just 'Systems of Data'

The focus of traditional IT systems has been to devise systems to capture and record data from interactions. However, this led to creation of data and system silos that don't talk to each other seamlessly. To leverage the data within these silos required complex programs and good technical skills to leverage the data.

Digital systems focus on creating systems that “engage” with the user to elicit meaningful and actionable intelligence, always driving towards a desired outcome. The idea is to create individual relationships and communications to scale, integrating the customer lifecycle engagement points. This allows detailed data analytics to develop the path to the desired outcome.

#6: Digital is about Democratizing IT, not Centralizing it

Traditionally, IT function is viewed with great respect and even some trepidation. The technology function has therefore always been isolated and centralized, with all the backend processes driven primarily by technology experts.

However, with advent of Digital technologies – notably social media and analytics, a lot of the business end of technology has moved from techies into the hands of business analysts. Productivity tools like Slack have made it easier for people to collaborate. Content creators have adopted tools that are easier to use, leading them to focus on the content rather than on mastering technology. These apps and programs do not require complex programming knowledge, and a reasonably intelligent person can master the basic technology required to perform the work. Thus, Digital technology has truly handed over technology to the general user.

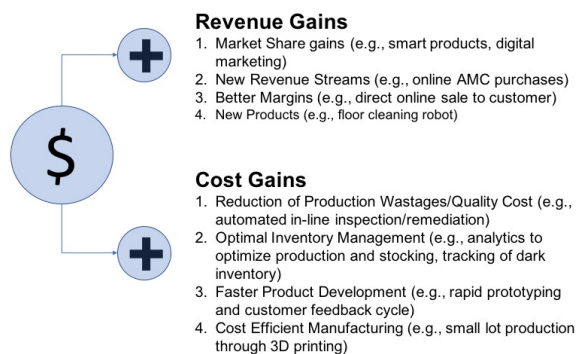
True digital transformation is characterized by several of the aspects, if not all. This also means that, at its full extent, digital transformation will completely change the way we do business, from products and services offered to how it is manufactured to its access by the customer and its last mile delivery to the market.

Need for Digital

The changes are significant, is it worth it? In our view, digital yields tangible benefits, at both the top-line as well as bottom-line level, as follows (see Fig 2):

Fig 2: How Digital can Positively Impact an Enterprise

Example: **A home appliance firm**



Revenue Impact Gains

Digital drives four revenue growth levers:

#1 Market Share Gains, Revenue Jumps for Existing Products and Services – for example, digital marketing driving better uptake or from improvements to products driven by social media comments. For example, when an Indian retailer enabled AI-led visual search to allow customers to search and buy using photos, conversion rates jumped 50%¹.

#2 New Revenue Streams around Existing Products and Services – some services, like purchase of AMC, ordering of customized products or ordering of consumables, lend themselves readily to digital, and thus lead to better, cost-effective market penetration. One of India's premier truck maker is driving aftermarket revenues through digital apps that help vehicle owners to track vehicle usage, maintenance, diagnostics and spares consumption².

#3 Better Margins around Existing Products and Services – ability to disintermediate by selling directly to customers, dynamic pricing, profile-based pricing, all drive better margins. Hotstar,

for example, recorded³ the highest ever viewership at 300 million for IPL broadcast, a 74% jump over previous year, earning Rs. 400 Cr in 2019 vs Rs. 200 Cr in 2018.

#4 New Products – with digital, firms can reach out to a larger, wider cross-section of customers to get quick and effective feedback, pre- and post-launch. For example, in coming up with Carvaan, especially in deciding the catalog of the 5000 songs to include, Saregama analyzed over 1.1 Billion consumption points from 134 partners. No wonder, then, that Carvaan sold way more than its optimistic projection⁴, in the process, boosting PAT 5x from Rs 6.2 Cr in FY17 to Rs 30 Cr in FY18⁵.

Cost Impact Gains

Firms can benefit from four cost levers:

#1 Elimination of wastages and inefficiencies/ yield improvement – A 2018, global BCG study suggests that adoption of AI in shopfloor can reduce manufacturing cost by as much as 20%⁶. Similarly, RPA, chatbots, AI and ML in the context of service industry, can yield higher customer satisfaction at far lower costs.

#2 Optimize Inventory Management – optimizing inventory requires understanding of past demand patterns and underlying shifts to project likely demand, a task that is well aligned to ML and AI. Actual implementations of AI+ML based inventory management have reduced inventory by 20-25%⁷, with a resulting improvement in EBIDTA by 200-250bps.

#3 Rapid Prototyping, NPD – technologies like 3D printing have been adopted by the likes of Tata Motor⁸ and Mahindra to drive faster and efficient prototyping process.

#4 Cost Efficient Manufacturing – small-volume or even custom piece commercial manufacturing has taken off in a limited way. For example, EOS collaborated with CSIO to print patient-specific implants using CT-Scan data⁹.

These benefits are tangible and given the early nature of the entire digital transformation, the cost-benefit equation should only get better, as the ecosystem improves. And, these benefits are not restricted to service or manufacturing firms, or those in the B2C space only. A curious-but-cautious approach to Digital Transformation could yield significant top-line and bottom-line benefits to the organizations. Globally, and in India too, firms in some sectors like automotive have moved ahead purposefully.

Conclusion

Digital is the new way of doing business. Digital technologies and the related disruptions, having begun on a slow note, have now become the new normal. The impact of digital cuts across all aspects of business. The transformations effected by the digital technologies has brought the customer closer to the firm and vice versa. In the coming years, digital transformations will affect almost all aspects of our lives - both personal and professional.

Key take-aways

- Digital led transformations are here to stay and will impact every industry.
- Digital is not IT; however, any successful digital transformation has to be built on the bedrock of robust IT systems.
- Digital involves a fundamental change to the business. True digital transformation incorporates six key characteristics outlined in the paper.
- Digital transformation leads to tangible, positive impact on both top-line and bottom-line, irrespective of whether the firm is B2C or B2B, or whether it is in manufacturing or services. Firms that adopt a measured approach stand to gain from the positives that digital has to offer.

Footnotes:

- 1) <https://www.thenewsminute.com/article/why-artificial-intelligence-and-visual-search-are-future-tech-major-brands-81055>
- 2) <https://cio.economictimes.indiatimes.com/news/corporate-news/how-ashok-leyland-built-its-digital-marketplace-to-create-new-revenue-streams/60356777>
- 3) <https://hooklineandclinch.in/why-saregamas-carvaan-became-a-success-in-the-age-of-gaana-saavn-df19c2bb3d03>
- 4) <https://economictimes.indiatimes.com/small-biz/startups/newsbuzz/saregama-on-a-song-with-carvaan-musical-device/articleshow/64201120.cms?from=mdr>
- 5) <https://www.bcg.com/en-in/publications/2018/artificial-intelligence-factory-future.aspx>
- 6) <https://www.livemint.com/industry/media/ipl-2019-hotstar-garners-18-6-million-concurrent-viewers-for-finale-1557816422438.html>
- 7) <https://c3.ai/resources/blog/re-imagining-inventory-optimization-big-data-artificial-intelligence/>
- 8) <https://www.livemint.com/Technology/kucK3KEsht0ieg8LNY7LKK/3D-printing-in-India-Inflection-point.html>
- 9) <https://www.entrepreneur.com/article/312123>

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