

Digital transformation

The forgotten customer

Digitalization has become the new management buzzword. Companies have established digitalization initiatives, conducted digitalization strategies and have established digitalization departments. Is this sufficient to be successful in a transforming market environment? This article highlights some perspectives what companies should keep in mind as they head down the digital transformation path.



'Digitalization' has entered the top management agenda of nearly any larger corporation. Responsibilities have been defined and initiatives are under way. More frequently the question gets asked: 'Are we heading into the right direction?'

Customer perspective cut short in digitalization initiatives

Analysing how digital initiatives are being set up in a lot of cases convey the following patterns:

- **Staff function:** 'Digital' is in several cases organised as a staff function. The businesses tend to be on the side-lines rather than in the driver seat
- **Manufacturing and supply chain focus:** Digital initiatives are focused on manufacturing and supply chain activities
- **Deployment of apps:** Customer facing digital initiatives tend to focus on the development of 'apps'. These may be delivered together with a proprietary technical standard

Is this appropriate? Where are potential white spots and will the digital initiatives ensure a stronger competitive position and value capture?

Recalibrating around competitive dimensions

'Digital' needs to address the whole value chain as technology offers the opportunity to be more effective and efficient with any activity. Also, interdependencies throughout the value chain need to be taken into account. But where should be the priority and what are the most pressing competitive dimensions?

- Production cost?
- Supply chain costs?
- Complexity?
- R&D and time to market?
- Other?

Any of the above might be supported by a digital technology dimension and is part of an Industry 4.0 rationale to innovate the value chain.

Unique opportunity to build a true customer relationship

However, technology offers the opportunity to innovate the end-customer relationship or to establish one if it has not existed before. This is the case for traditional B2B businesses. Information and transaction costs of establishing and maintaining a customer relationship are not as restrictive as this has been the case in the past.

- **Broad reach:** Customers can be approached any time and in any geography with a customized message
- **Close interaction and automated operations:** Through a well-structured interaction much more targeted messages can be sent and automation of routines is possible (e.g. chat bots). Behavioural patterns of customers can be captured and linked to buying rationales and timing
- **Communities can be leveraged to make relationships for customers more relevant:** Peer-behaviour and referrals are relevant buying factors in a B2C relationship. In B2B relationships adjacent offerings can be positioned more prominently which are identified as an integrated value proposition (e.g. services, financial products)

What implications can be drawn for some industrial sectors?

Understanding the customer value proposition will change the delivery ...

- **Electric devices, furniture and construction materials/components:** These industries sold traditionally through wholesale channels and rely significantly on their sales network for customer intelligence. Now, for the first time these industries can establish end customer relationships and deploy commercial or technology platforms to make a bigger market impact
- **FMCG:** For some large FMCG firms a 'charged' customer relationship has become already a reality. Social media is used to engage with communities proactively. Apps are used to

nurture individual customer relationships and to impact brand loyalty

- **Financial services:** As the sector is transforming it will reorganise around customer value. Costly distribution structures will no longer be required to interact with the customer, product innovations can be deployed much faster and at lower costs. Compliance with regulatory requirements can be tracked much more easily
- **Mobility:** This is no longer just a pure hard ware or service play. Both plays are integrating. Lifestyle considerations become more important with regard to the pure transportation aspect

Especially in online-retail and online technology, the customer is in the centre of the business model evolution. Strategic business model considerations meet explorative business model evolution cycles. As such not a deterministic marketing approach is followed. Explorative marketing is being pursued supported e.g. by big data analyses, machine learning, continuous price exploration and testing.

... and enable companies to maintain their relevance in the market

As the customer relationship 'gets charged', companies will be in better position to prove their relevance to the customer. This will be the basis for continued profitable growth. If this is not being addressed other market participants will challenge and take over the customer relationship over time.

New entrants are also quite active to develop new ground (e.g. Apple Pay, Uber, AmazonFresh, ShaveClub, Google Car). Technology should be employed driven by commercial requirements (and not the other way around).

Creating value through a commercial platform rather than fragmenting the market through proprietary standards should be the leading thought for developing a customer value proposition. The latter will limit the benefits of developing commercial and technology networks (IoT) and hence will undermine the customer value proposition.