Digitalization is ubiquitous
It has become obvious that neither consumers nor businesses can evade the new digital world. For more than 800 million people, Facebook is not just hype, but an integral part of their everyday lives. As digitalization accelerates, its impact shows up not only through big players like Facebook, eBay, and Google, but also through digital media’s effect on the relationship between companies and customers.

Increasingly, consumers influence the success of products and services and can even act as a pervasive force by simply sharing their personal experiences via social networks. Consumer recommendations already constitute the most powerful driver of purchase decisions. Clearly, online transparency and consumers’ trust in their friends’ experiences and taste turn out to be of greater importance than advertising messages.

Digitalization is capable of substantially altering existing value chains and can, in some cases, even render them obsolete (e.g., local video rental shops). It also creates room for new business models: On the online platform Airbnb, over 100,000 people in 189 countries offer their homes as accommodations for strangers. Participants from New York earn about $1,400 per month – on average. So far, more than 1.7 million people have already used this service and have trusted in strangers’ and public recommendations instead of using familiar hotel chains with their well-known standards.

It thus makes it clear: Digitalization has a strong effect on society’s future development, and implications for the relationship between customers and companies are already visible.

Challenges resulting from a redefined relationship between customers and businesses

Digitalization and its ramifications pose new and complex challenges to business leaders such as: How can companies maintain their brands’ relevance in the digital world? Can value propositions be adapted to the new conditions? How can digital media be used effectively? What are customers’ expectations of digital offerings?

Digitalization must not be treated as a “marketing-only” issue but as a fundamental and enduring development for the entire business. As such, implications must be evaluated from a holistic and cross-divisional perspective. In this context, scope should not only be limited to screening digital communication opportunities, as the digital world also bears significant potential for other areas of improvement, such as cost reductions or increase in efficiency (e.g., in the area of customer service).

Employees of the U.S. electronic retailer Best Buy, for example, were encouraged to use Twitter as a tool to handle customer requests. Within the first year, 2,500 employees acting as the “Twelpforce” managed to produce more than 31,000 tweets, while 28,000 customers were actively following the Twelpforce’s Twitter feed.

Essential steps to success

There is no single strategy to successfully approach the digital world, as requirements differ substantially between industries and companies. However, drawing on previous project experiences, we have identified four essential steps to a successful “digital transformation”:

1. Identify potential: Can new media and technologies add value?

New media and technologies offer a wide range of (new) communication, engagement, and business possibilities. But which tools and approaches are relevant and applicable to the particular business? To clarify this matter requires a careful challenge of the desired benefits of digitalization.

Adopting a broad perspective concerning sector-specific and industry-wide trends helps to quickly establish the big picture and to formulate preliminary hypotheses. Yet, a truly market-oriented approach requires companies to take an inside-out perspective.

It is thus beneficial for companies to identify and prioritize those stages of the value chain that offer greatest optimization potential through the use of digital media. Typically, the optimization potential differs from industry to industry. For instance, consumer package goods
companies may leverage digitalization to boost product development (e.g., through crowd sourcing) or to develop new marketing approaches. Financial services providers can usually benefit in terms of strengthening their brand (e.g., creation of trust with online target groups) or an augmented service portfolio (e.g., digital customer portals).

“Homeplus,” Tesco’s South Korean grocery store chain, discovered that digital concepts can effectively be used to create additional retail-touchpoints, thereby enhancing competitiveness relative to the market leader. The grocery chain implemented a new sales approach, which focused on installing virtual supermarkets in subway stations. The walls of the waiting areas are used as shelves and customers can directly order products with their mobile phones.

This example shows that a tailored analysis of potential opportunities should always be executed prior to strategy development and activity planning to avoid jumping to conclusions, which might lead to just another Facebook page.

2. Develop a clear point of view: How should digitalization be handled?

Given digital’s potential to strongly influence a brand and customer relationship, it is important to develop a clear, unambiguous, and company-wide attitude towards it. This helps to avoid ineffective ad hoc measures when new capabilities or platforms pop up.

The point of view is developed within the context of the first step and frames the strategically relevant scope of digitalization for the company. In this context, five different approaches can be distinguished:

- **Lighthouse approach:** The future direction of digital activities is defined by a single activity, which creates high awareness among target groups.
- **Selective approach:** New media and technologies are selectively identified to flank other communication measures for a new product launch or when establishing a new service channel, allowing different paths to be tested.
- **Staged approach:** This route is based on the opportunity analysis, which still follows the “trial and error-principle” and mainly focuses upon testing and learning with specific strategies before launching full bore.
- **Systematic approach:** Based on the results of a detailed opportunity analysis, a strategy is developed that includes systematic implementation of various measures.
- **Wait and see approach:** No immediate reaction of the company to digitalization, but appropriate reactions to digital developments may follow in the future.

Each approach has different implications for corporate strategy and corresponding resource and investment requirements. Yet, most important is to decide upon the appropriate approach and to consistently communicate this decision internally.

3. Plan activities: How are successful ones developed?

Only after worthwhile opportunities have been identified and a clear point of view towards digitalization has been agreed upon can appropriate digital activities be developed.

What should be considered are the company’s own experiences in the digital context as well as new sources of inspiration (e.g., competitor activities, best practice examples). Rather than simply copying ideas, this step helps to advance an understanding of the various mechanisms of the digital world. A financial services provider, for example, should not move directly into social gaming. Yet, gaining deeper insights into the specific approaches to address customers’ needs in that area may be highly valuable for the creation of future service offerings.

4. Implement strategy: How to create internal alignment and engagement?

It is a misperception that simply executing operational measures creates acceptance and holistic understanding for digitalization. Instead, isolated silos, in which fragmented activities are being implemented can result. As meaningful and effective utilization of new media and
technologies requires a strategic approach, digitalization has become a top executive topic. Our experience has shown that successful digital transformation can best be supported by an internal “Digital Council,” which operates across divisions, coordinates all digital activities, ensures effective collaboration, and develops state-of-the-art guidelines and toolboxes.

**Digital success can be planned**
If industry-specific potential for the use of new media and technologies are taken into consideration, a clear point of view regarding digitalization is developed, precise measures are established, and an effective and efficient implementation is ensured, companies can benefit from digitalization and position themselves successfully in the digital world.

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