The Digital Economy: Disruption, Transformation, Opportunity

The Digital Economy isn’t on the horizon. It’s here. This update offers strategic insights for leaders seeking competitive differentiation in this dynamic new environment.

Bottom line: digitization and the Internet of Things (IoT) are changing the world at an unprecedented rate. Companies looking to succeed in the emerging digital economy must transform themselves by reinventing their business models, strategies, processes, and practices.

What is the digital economy? It’s the economic activity that results from billions of everyday online connections among people, businesses, devices, data, and processes. Knowing how to manage, extract value, and make decisions based on those connections may seem daunting, but it’s a crucial executive task. “Success will depend entirely on how companies can transform themselves digitally to harvest the opportunities of this data-driven, hyper-connected environment,” says Dinesh Sharma, Vice President of Portfolio Marketing at SAP.

Such transformation also requires ongoing enterprise reorganization and the blurring of once strictly defined employee roles. Even the nature of accountability is changing, Sharma says: “New tools and processes will empower employees to routinely make crucial decisions with less—or no—red tape. This will help make organizations nimble enough to meet their customers’ ever-changing demands.”

A disruptive quartet. The digital economy is driving disruption in four areas that business leaders must address:

1) Employees: CxOs must manage increasingly dynamic distributed workforces. For example, millennials—today’s youngest employees—are driving the growing contingent-labor trend because they expect to be able to work remotely or hold multiple jobs simultaneously. Organizations must also develop next-generation digital business...
“Success will depend entirely on how companies can transform themselves digitally to harvest the opportunities of this data-driven, hyperconnected environment.”

— DINESH SHARMA, VICE PRESIDENT OF PORTFOLIO MARKETING, SAP

With an effective digital core, CxOs can reinvent their organizations, allowing their stakeholders to easily make rapid, seamless connections and ending the era of the conventional disjointed enterprise.

processes and train all employees to use them effectively, from anywhere, at any time.

1) **Customers**: Today, B2B and B2C customers alike want companies to interact with them seamlessly, on demand, whenever and however it’s most convenient. They also crave direct, contextual, personalized experiences. That’s why all employees must be armed with the data they need to make real-time decisions.

“The days of just selling a product and counting profits are gone,” Sharma notes. “Now, success is measured by customer loyalty, which must be earned every day.”

2) **Customers**: To enable truly next-generation commerce, enterprises must securely capture, analyze, and share data in real time and at multiple points of contact. “Today, businesses outsource tasks to specialty providers, so the single, integrated company of 20 years ago is history,” Sharma says. “But you must still enforce processes across the complete value chain.”

3) **Suppliers**: To enable truly next-generation commerce, enterprises must securely capture, analyze, and share data in real time and at multiple points of contact. “Today, businesses outsource tasks to specialty providers, so the single, integrated company of 20 years ago is history,” Sharma says. “But you must still enforce processes across the complete value chain.”

4) **Assets**: The convergence of the physical and digital worlds brings every asset into the digital domain. “Organizations that understand both their physical and digital asset inventories can operate at new levels of precision, allowing them to better serve customers and quickly, effectively collaborate with both internal and external stakeholders,” Sharma says.

**The digital core**. Success in the digital economy involves more than just eliminating traditional structured job roles and reimagining processes. CxOs also need to rethink their infrastructures.

“At the heart of any digital transformation is the concept of a digital core that will effortlessly connect business, people, devices, data, and processes across your workforce, supplier network, customers, and markets,” Sharma says.

“The digital core’s sophisticated technology removes the burden of running legacy technology infrastructures, outdated processes, and isolated data so that you can ‘run simple’ in this new economy.”

With an effective digital core, CxOs can reinvent their organizations, allowing their stakeholders to easily make rapid, seamless connections and ending the era of the conventional disjointed, “silo-ed” enterprise. But business leaders must also extend such efforts beyond their own organizations, Sharma notes:

“In the digital economy, the entire value chain must be digitized.”

**Keys to success**. SAP recommends these five principles for developing an effective digital strategy:

1. Emphasize outcome-based customer experience.
2. Integrate core processes and real-time analytics to enable simpler, smarter, faster work.
4. Collaborate with suppliers to accelerate growth.
5. Use the IoT to connect and leverage digital and physical assets to drive up-to-the-moment insights for smarter, faster decision making.

“To win, organizations must innovate,” Sharma adds. Specifically, SAP recommends three approaches:

- **Reimagine business models**. Expand beyond traditional industry boundaries. Make the leap from an asset-based enterprise to a service- or outcome-based organization, as the ride-sharing service Uber has done. Focus on what your organization offers in the supply chain and what makes sense to outsource. Identify valuable strategic partnerships.

- **Reimagine business processes**. Update or eliminate processes that don’t support digitization. Exploit hyperconnectivity, agility, and real-time access to digital assets to reinvent business processes routinely, not just now and then. For instance, adapt inventory-management and manufacturing processes to keep up with changing customer preferences, and improve collaborations with strategic partners.

- **Reimagine workforce productivity**. Improve existing processes to provide real-time information for better decision making. Use your digital core to empower employees and reduce the number of steps they must take to complete their work. Give them the best, most advanced tools with the simplest interfaces.

**Why SAP?** As the world’s leading provider of enterprise-application software, SAP understands the digital economy’s opportunities and challenges. Its solutions help customers master the complexities of both. SAP’s S/4HANA provides the digital core, or platform for innovation, that allows companies to transform themselves for success in this new environment. For more information, visit www.sap.com/digital-economy.