

# The New Digital Economy

How it will transform business



An executive summary produced in collaboration with SAP

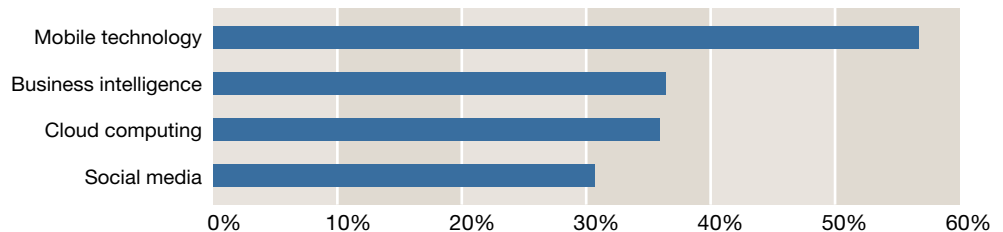
## Executive summary

International leaders face an era of unprecedented change. The financial crisis that ended in 2009 caused a seismic shift that has reshaped the global business landscape. The world economy is now characterized by sluggish growth in the West, a shift in power to the East, value-driven customers and rising risks everywhere. At the same time, the downturn has hastened the adoption of new tools that are transforming businesses and sparking a new wave of wealth creation, particularly in the emerging world.

To understand how these shifts will affect the global marketplace over the next five years, we conducted a study of 363 corporate decision-makers, supplemented by interviews and panel discussions with global c-level executives and thought leaders. Our research identified four key technologies:

**Figure 1: Digital megatrends**

Which do you believe will have the greatest positive impact on your business over the next five years?



*More than half of respondents within each industry say their firms will invest heavily in mobile technologies over the next five years.*

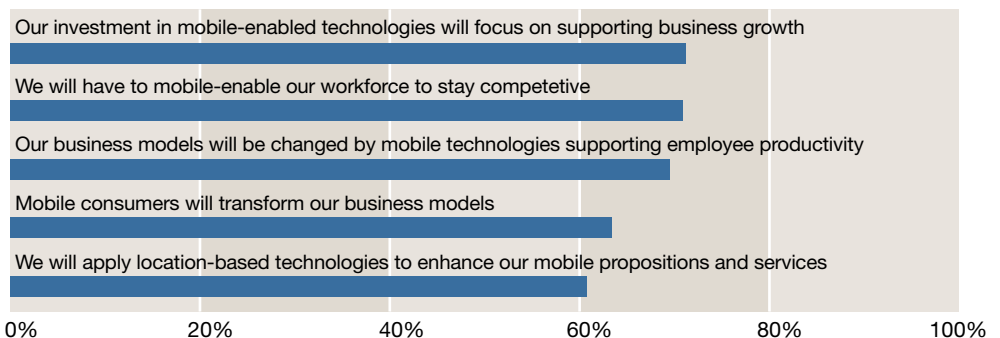
**Mobility.** A majority of respondents (57%) say that mobile technologies will have the greatest positive impact on their business over the next five years. Survey respondents across companies of all sizes see mobility as a game-changer, and more than half of respondents within each industry say their firms will invest heavily in mobile technologies over the next five years.

Currently, eMarketer estimates that 4.3 billion of the world’s population use mobile phones (Africa is the fastest growing market) and expects that figure to swell to 5.8 billion (72% of the total population) by 2015. As a sign of the times, in 2010 eBay customers bought and sold more than \$2 billion in goods over their phones, up from \$600 million in 2009. Juniper Research, the technology advisory firm, expects mobile payments to reach \$630 billion by 2014.

**Figure 2: Mobility supports business growth**

How strongly do you agree with the following statements for your business over the next five years?

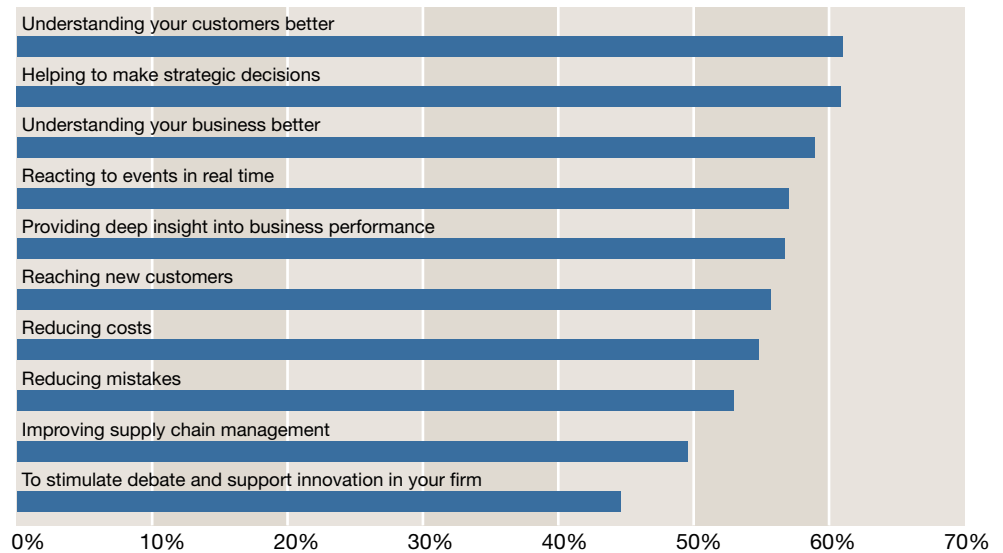
(% stating agree or agree strongly)



**Business intelligence.** Business intelligence now underpins nearly every aspect of business operations, from supply chain and risk management to marketing and product development. Our survey reveals myriad ways executives benefit from business intelligence. Approximately 61% cite its importance in better understanding their customers. A similar proportion indicates it helps them make strategic decisions.

**Figure 3: The importance of business intelligence**

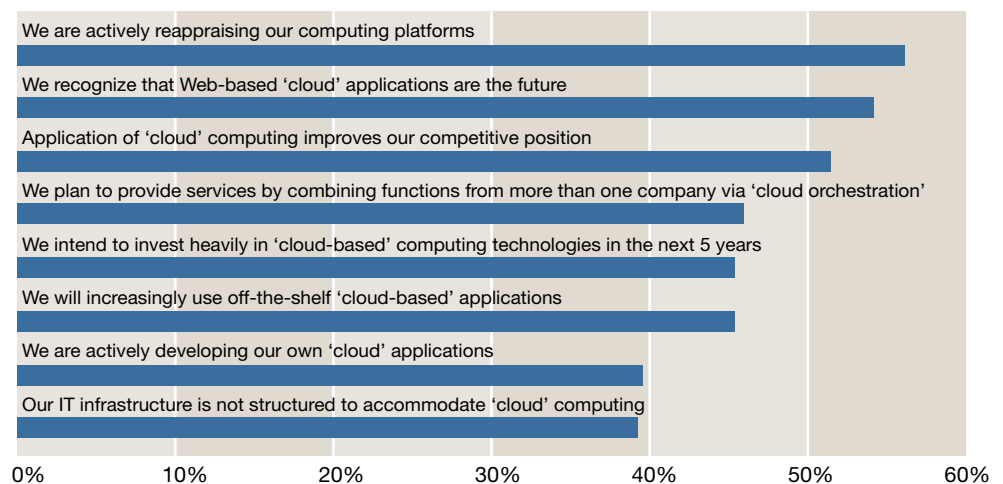
**How important will business intelligence be to the following aspects of your business?**  
 (% stating extremely important or very important)



**Cloud computing.** Following business intelligence, cloud computing is expected to provide the greatest business benefits, according to our survey. Roughly 36% of executives say the cloud gives them more flexibility to respond to market opportunities, improves the accessibility of their business and brand, and makes it easier to do business. As a result of these benefits, 46% of companies in our survey plan to invest heavily in cloud computing in the future.

**Figure 4: Executives turn their attention to the cloud**

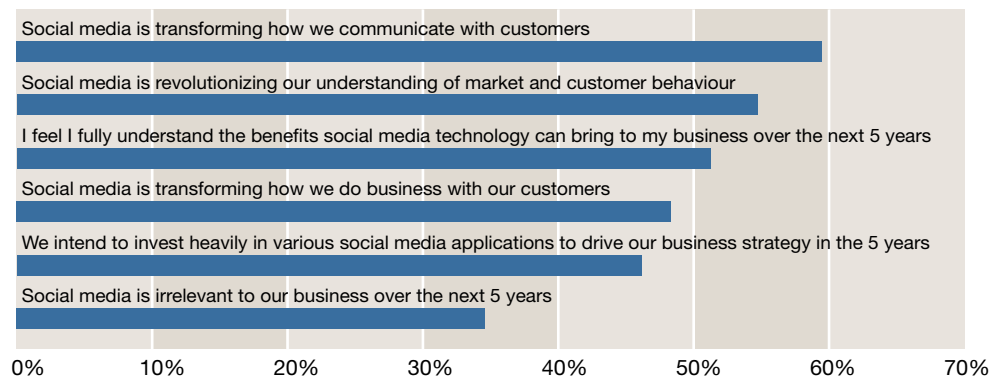
**Please indicate the extent to which you agree or disagree with the following statements.**  
 (% stating agree or agree strongly)



**Social media.** Social networks have become a cultural phenomenon. Facebook now has over 650 million users, and Twitter’s volume of visitors is rising at over 80% a year. Despite this, our survey reveals a debate among executives over the business value of social media. Thirty-one percent of respondents believe social media will have the greatest impact of any technology on their business—yet 35% consider social media to be irrelevant. Still, our survey uncovered a growing number of firms—such as GE Energy, Forbes and security software provider AVG—that are using social media to build brand awareness and customer loyalty, especially in emerging markets.

**Figure 5: The social media debate**

**To what extent do you agree with the following statements?**  
 (% stating agree or strongly agree)



**Survey profile**

This global survey of 363 business executives was conducted in December 2010. Of the respondents, 19% hailed from the US, 20% from the UK, 15% from India, 14% from Japan, and 8% each from China, Brazil, Mexico and Australia. The survey represented a broad range of industries, including financial services (26%); manufacturing (19%); technology, information, communication and entertainment (18%); retailing and consumer products (15%); and life sciences and healthcare (11%). More than half (52%) of respondents worked at firms with revenues of more than \$1billion; 25% had revenues of \$500 million to \$1billion; and 23% had revenues under \$500 million. Approximately 46% held c-level titles; 27% were senior vice presidents, vice presidents or directors; and 27% were heads of their business unit or department.

## The virtuous circle of technology and growth

Today’s economic realignment and digital transformation are inextricably linked. The current economic conditions are fostering investment in technology as emerging markets ramp up their demand for technology to fuel growth and advanced markets seek new ways to cut costs and drive innovation. This becomes a virtuous circle as digital technologies drive consumer income and demand, education and training, and efficient use of capital and resources—leading to increased economic growth, particularly in emerging markets.

Against this backdrop, we foresee six significant shifts firms will need to address over the next five years:

**1 The global digital economy comes of age.** The internet has set in motion a third wave of capitalism that will transform many aspects of the global marketplace—from consumer behavior to new business models. The first wave came from the creation of the shared stock company, in which owners could spread the risks and rewards of setting up new ventures. The second wave arose from the twin innovations of the telegraph and railroad, which created a communications and coordination platform for large-scale industry. The need to finance these initiatives launched the capital markets in existence today. The third wave focuses on a shared platform—the internet. Mobility, cloud computing, business intelligence and social media underpin this shift, which is taking place in both developed and developing economies.

According to research firm IDC, the size of total worldwide e-commerce, when global business-to-business and -consumer transactions are added together, will equate to \$16 trillion in 2013. When added to the global market for digital products and services—which IDate, the French technology research firm, estimates at \$4.4 trillion in 2013—the total size of digital economy is estimated at \$20.4 trillion, equivalent to roughly 13.8% of global sales.

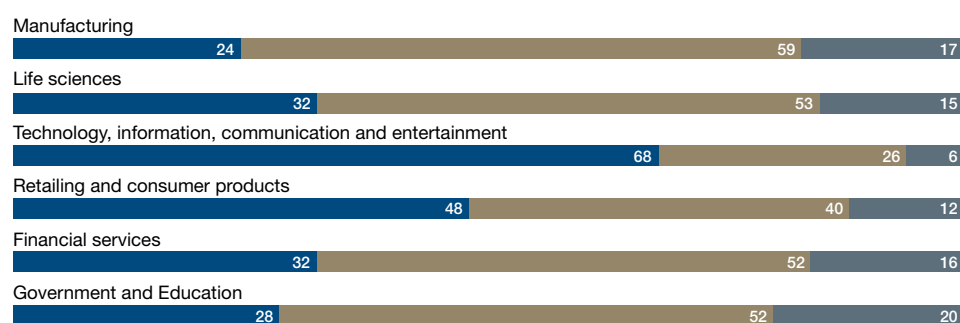
**2 Industries undergo digital transformation.** The virtuous circle is not just restructuring the world economy; it is leading to a new phase of industrial transformation. Indeed, to compete on the global stage, and reap the benefits of the digital marketplace, executives agree that industries will continue to see sweeping changes over the next five years.

**Figure 6: Industries set to undergo transformation**

**Key**

- Greatly transformed
- Somewhat transformed
- Not at all transformed

**Q1. In your view, which of the following business sectors will be most transformed (for the better) by information technology over the next 5 years?**  
(% respondents)



While new firms will embrace the digital marketplace straight away, established firms will need to transform how they sell, price, produce and deliver products and services. Executives indicate this digital metamorphosis ultimately will help their firms provide more responsive customer care (60%), reduce the time required to complete tasks (60%) and improve employee productivity (58%).

### Technology as a revenue driver

For many companies, technology is taking on a new role—as a driver of revenue and enabler of new business models. One of the best examples of building a new business from a technological advancement is location awareness—the use of GPS sensors in mobile phones to create location-based services. Three years ago, the concept of location awareness was mainly limited to GPS systems in automobiles—drivers used such systems to navigate complicated street routes and find their way out of traffic jams. That all changed in March 2009, when a new service called Foursquare made its first appearance at South by Southwest Interactive, an annual music festival held in Austin, Texas.

With more than 8 million users worldwide, 2.5 million check-ins per day and more than 250,000 participating merchants, Foursquare has quickly developed an ecosystem that has yet to be matched by its competitors, most notably Facebook, Twitter and Google. Its founders Dennis Crowley and Naveen Selvadurai credit the success of the platform to its game-like approach—users earn points and “mayorships” for their check-ins, and are ranked on a leader board with their friends. Most recently, Foursquare added an “explore” function to its service that allows users to search for businesses that are close in proximity—restaurants, shops, bars and entertainment venues.

- 3 The digital divide reverses.** With economic power shifting to the East, cash-rich companies in the developing world are now investing heavily in technology—often outpacing their counterparts in developed markets. The difference in attitude between the West and East is reflected in their disparate views on digital transformation. For example, two-thirds of executives in emerging markets believe that mobile devices will become the standard platform for web applications over the next five years, compared with only one-half of executives in advanced economies.

In fact, the rapid adoption of new digital technology in emerging markets is evident in global mobility trends. Latest statistics from the International Telecommunication Union (ITU) estimate about 5.3 billion mobile subscribers in the world, with about 73% (3.8 billion) located in the developing world. China and India are fuelling most of the growth: These markets added 300 million new mobile users in 2010 alone—a figure greater than the US’s entire mobile subscription base. And with mobile costs falling, China and India are likely to see continued meteoric growth. According to eMarketer, the number of mobile users in China will jump from around 671.1 million in 2010 to almost 1.06 billion in 2015; India’s will leap from 516.2 million to 901.2 million for that same period.

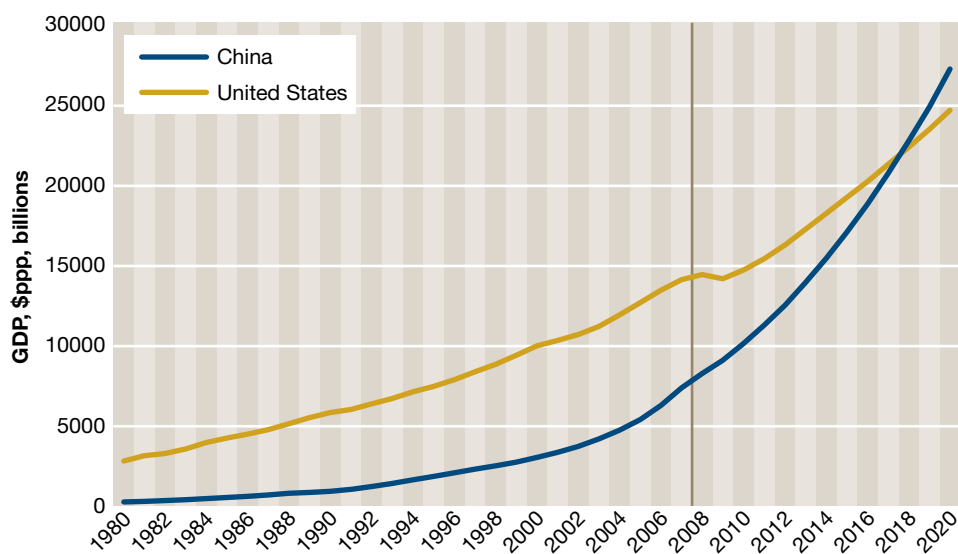
- 4 The emerging-market customer takes center stage.** Rapid economic growth, along with rising populations and income levels, are putting emerging markets at the center of corporate growth strategies. In markets like China and India, disposable income growth is soaring at 8%, as opposed to just 2% in the US and 1% in Japan. As a result, more consumers in the developing world are entering the middle or upper-middle income class—further fuelling the virtuous circle.



In fact, by 2020, the E7 (Brazil, Russia, India, China, Mexico, Indonesia and Turkey) will hold a greater share of world GDP than the G7, and a new tier of emerging markets, such as Vietnam, Colombia, South Africa and South Korea, will take off in their slipstream. Reflecting the enormity of the economic power swing, our forecasts show that China will surpass the US in 2018 to become the world's biggest economy, when measured by purchasing power parity (PPP).

As emerging market customers move to center stage, Western companies are increasingly turning to reverse innovation—whereby products and services are created first for customers in emerging markets and then rolled out to the developed world.

**Figure 7: China becomes the world's largest economy**



**5 Business shifts into hyperdrive.** The ever-changing global marketplace, fuelled by fast-growth economies and new technology, has accelerated the speed of most business activities, from product development to customer response. Real-time business intelligence and predictive analysis will be required not only for faster decision-making, but to cope with unexpected market risks and opportunities.

According to our research, corporate organizations and their customers now require real-time tools capable of providing insight and actionable information at just the right time—in fact, 61% of survey respondents agree that huge increases in data volumes will require a new type of business intelligence. Increasingly, competitive advantage and customer value will come from gathering market information from a wide array of sources, including social networks and web-based analytical tools.

**6 Firms reorganize to fully embrace the digital economy.** To operate on the global digital playing field, where new rivals are unencumbered by rigid policies and thinking, astute Western firms are moving away from strict hierarchical decision-making and closer to a network structure that is more market-like and organic.

For example, international firms such as IBM are creating globally integrated organizations that can locate functions anywhere to take advantage of low costs and availability of skills. Other firms, such as AVG, are pushing their companies to an edge-based organization. Under this structure, executives and their teams are empowered where the firm interacts with the market.

## CEO Imperatives

These shifts will have profound implications for corporations in the years ahead. To ensure success, executives must begin planning their strategies today to ensure they are not obsolete tomorrow. Our research with executives and global thought leaders reveals the following imperatives:

- **Prepare for the East, but protect the West.** In 2020, the E7 will account for a greater share of global GDP than the G7. Companies that do not have strong positions in developing economies may fall far behind the curve. But be ready for emerging market firms looking to play in your backyard.
- **Remember every company can be a digital competitor.** Advances in cloud computing have made technology far more accessible, both for customer-facing and back-office operations. Still, firms should tread carefully and consider combining private and public cloud computing options.
- **Have a forward-looking mobile strategy.** You will not want to miss out on this enormous growth opportunity. This is especially true in emerging markets, where the smart phone will allow customers to move straight to the mobile internet just as the cell phone leapfrogged fixed-line telephone connections.
- **Think innovatively about innovation.** Companies need to re-evaluate how they approach product and service development to meet the needs of emerging market customers. This may mean moving to reverse innovation.
- **Embed social media into all parts of your business.** This is a blind spot in the industrial world, where only 33% of executives believe social media will become a standard tool, against 66% of their counterparts in emerging markets.
- **Anticipate global market shifts—in real time.** Business analytics can dig deeper into data for early identification of market trends and transform your products and services. Such tools can help executives stress-test their firms' strategies through scenario and predictive analysis.
- **Install safeguards to manage next-generation business risks.** The digital economy exposes companies to greater threats, including cyber-attacks, piracy and reputational damage. Likewise, economic shifts are heightening operational risks.



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