

# Digital strategy: merging the real and virtual world

The era of digitalization is rewriting the way of approaching the market and, as a consequence, the strategies of competition. Today's leaders need to take decisions in order to tackle and thrive under the new circumstances conceived by the digital revolution. The merger of the real and the virtual world, together with business intelligence and technology, have impacted how business is done. Hence, companies need to define their digital strategy. If not, they will be left behind.



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In 2015 ...

Mobile subscriptions



**+7.1 billion**

Smartphones connections



**2.7 billion**

Mobile social accounts



**1.68 billion**



**M**any companies today believe they have a digital strategy because they have developed their IT infrastructure and adopted technologies such as cloud computing, mobile applications, social media, analytics, cloud, remote sensing and location. However, these companies are confusing having an IT strategy with a digital strategy – the difference is that while IT strategy is defined in isolation, digital strategy fuses the digital and virtual world. The digital strategy is meant to define the plan of action and approach to digitalization to stay competitive in the market.

**Understanding the digital strategy**

Digital strategy has been considered by many as the introduction of e-commerce and, by others, as the usage of current trends such as social media, mobile applications and cloud services, while still others focus on the future and the digitalization of services. Organizations have digitally substituted strategies and processes to create digital copies of the real world's business models and processes. However, while this kind of digitalization may be efficient, it results in a greater commoditization of the channel – and, as a consequence, only a small associated profit. Thus, a better strategy is needed when organizations look for a profitable channel in the virtual world.

In order to create value for customers through digital technology, it is necessary to transform processes, business models

## Case study

### Mexico's National Digital Strategy

Mexico is facing a significant lag in the adoption of information and communication technologies (ICT): according to the Organisation for Economic Cooperation and Development's (OECD) digitalization index.<sup>1</sup> The country occupies last position within the organization's members. In order to address this, the Mexican State developed a National Digital Strategy to drive the adoption and development of ICT and maximize the economic, social and political impact.

The National Digital Strategy has objectives in five areas: government transformation, the digital economy, quality of education, universal and effective health, and security. There are also five main enablers that will have to be developed prior to implementation: connectivity, inclusion and digital skills, interoperability, a legal framework and open data. The Government also published a strategic plan to define the politics and proposed guidelines to transform the country into a "Digital Mexico."

As part of the effort to implement these enablers, EY developed a conceptual framework of the shared services

strategy for the Mexican Government. By implementing this strategy, the Government will be able to use its current ICT capabilities to face the challenges in achieving a truly digital context.

However, there are some hurdles that need to be overcome before the National Digital Strategy can be implemented:

- ▶ **Establishing current capabilities:** in order to avoid duplicity of efforts, the country's current capabilities need to be determined.
- ▶ **Delivering services among government dependencies:** the regulatory framework needs to be defined, including ensuring administrative rules are addressed, along with the mechanisms to offer relevant services.
- ▶ **Implementing the governance scheme:** a framework needs to be established to ease the delivery of high-quality ICT services.
- ▶ **Implementing the shared services model:** economic resources must be aligned as well as trained and skilled human resources that will fulfill the National Digital Strategy.

As a consequence, the conceptual framework for shared services proposes to make agreements among federal and other entities to take advantage of the available infrastructure. For example, there are some federal entities with underused capabilities that could be offered for use by others. Some of the services that could be offered include emailing, servers, data centers and telephony.

The framework would also deliver benefits including ICT cost reduction, email administration, use of available space at data centers, clouding services and a reduction in the related costs for the adoption of technology. In addition, relevant entities would avoid releasing bids in order to acquire the services, making the procurement process more efficient.

1. *National Digital Strategy*, Mexican Government, 2013, <http://embamex.sre.gob.mx/italia/images/pdf/national%20digital%20strategy.pdf>, accessed May 2015.

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and customer experience through the digital connections among systems, people, places and things. The result will be the development of digital capabilities, instead of just introducing devices such as smartphones, tablets or applications to replace catalogs, or using social media and applications to replace traditional marketing and sales efforts.

Until now, investing in technology has been viewed in isolation by many

companies. For this reason, it has been thought of as a trend that requires significant resources and delivers a limited outcome. Yet, it has been proven that adopting technology has helped companies to outperform peers who have not. Many companies evaluate a technology venture in isolation, rather than assessing the real impact, i.e., capabilities that will be developed by the implementation of a certain technology.

The organization's digital strategy should include diverse elements that would guarantee the company's transformation through a sustainable model, aligned to the corporate strategy. This strategy should arise as a need to transform the operative areas, taking into account the technological capabilities available within the company (see Figure 1)

**Figure 1. The diverse elements of a digital strategy aligned to corporate strategy**

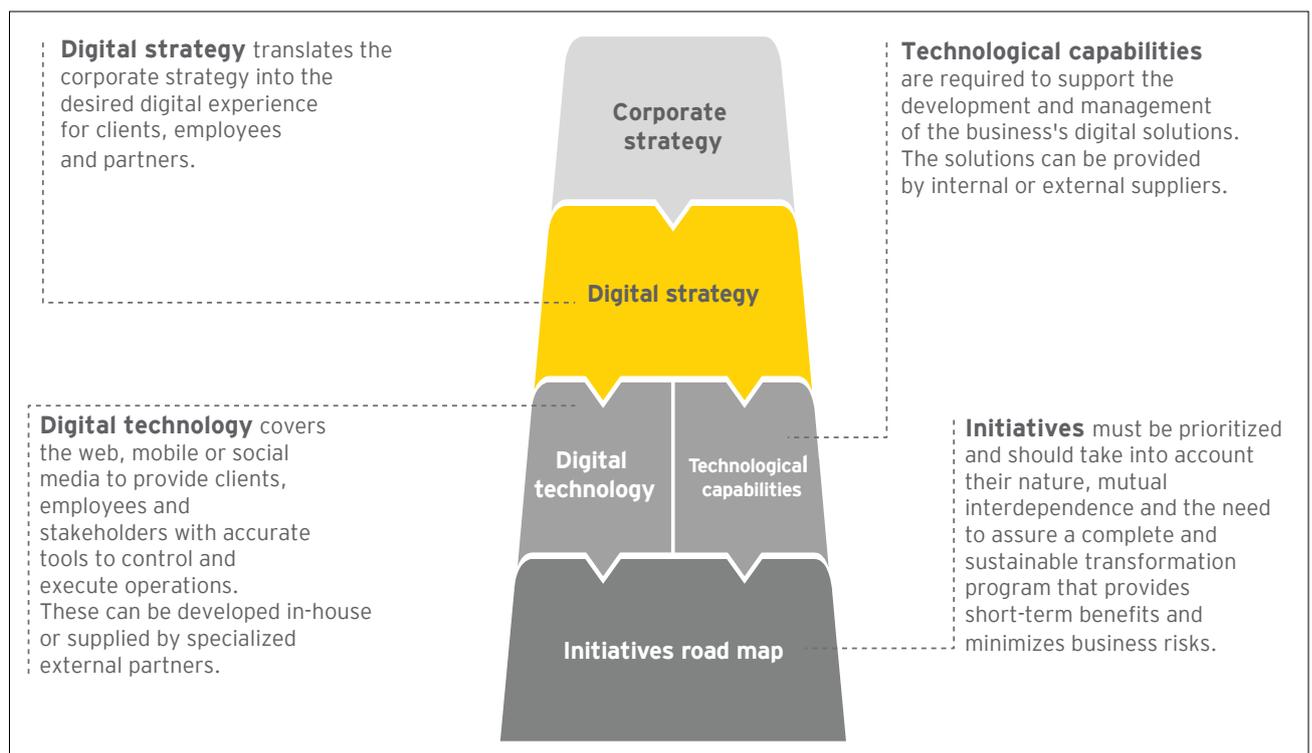


Figure 2. How a digital strategy orchestrates connections



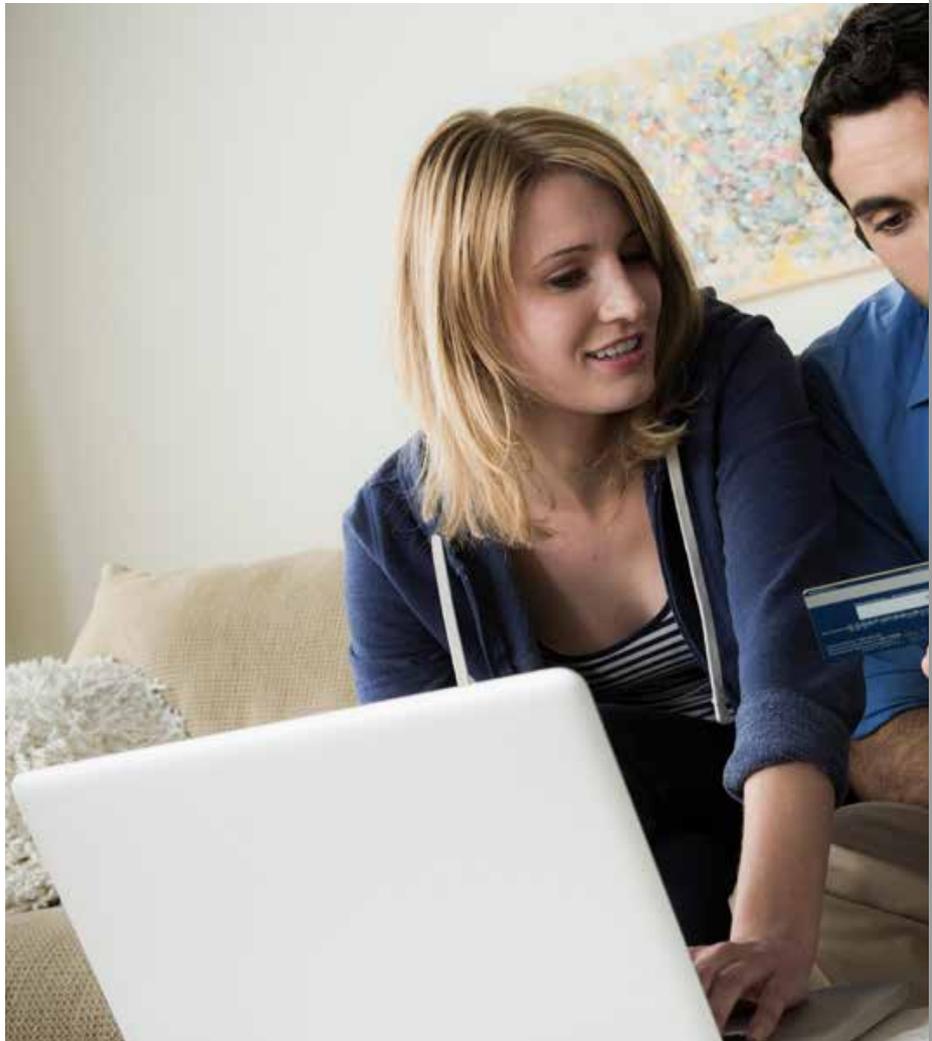
Therefore, a digital strategy should focus on specific outcomes. It should orchestrate digital connections among systems, people,

places and things through the use of technology. The result of a digital strategy should be the creation of customer value,

embedding the same customer experience across all available channels, whether virtual or real-world (see Figure 2).

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Companies often confuse an IT strategy with a digital strategy – the difference is that while IT strategy is defined in isolation, digital strategy fuses the digital and virtual world.



**Why is it important?**

Countries are moving to a digital economy in order to serve the e-consumer. Internet usage has been growing at an amazing speed, and, based on 2014 figures and a 12% compound annual growth rate of 12%, there are currently an estimated 3 billion users,<sup>2</sup> accelerated by the rapidly growing population of emerging countries and their adoption of mobile phones and smartphones. In 2015, the number of mobile phone subscriptions is forecast to be slightly over 7.1 billion. Within that, the number of smartphone connections is expected to reach 2.7 billion, and in addition, the number of active mobile social accounts will grow to 1.68 billion.<sup>3</sup>

However, the acceleration in usage of

digital channels greatly depends on the penetration of technology in each country. Developing countries, such as Brazil, China, Mexico, Vietnam and the Philippines are rapidly improving their readiness.<sup>4</sup> These countries will play an important role in the development of the digital economy as the next billion consumers to come online will originate from them, and will use different practices to current users. However, it will be necessary to improve infrastructure and accurately meet customers' needs.

Furthermore, it is evident that the economies are traveling at different speeds in the digital economy race, and, for this reason, businesses will have to innovate and customize their approaches, while governments will have to work on the

development of infrastructure and financial inclusion.

2. Internet Society Global Internet Report 2014: Open and Sustainable Access for All, Internet Society, 2014, [https://www.internetsociety.org/sites/default/files/Global\\_Internet\\_Report\\_2014\\_0.pdf](https://www.internetsociety.org/sites/default/files/Global_Internet_Report_2014_0.pdf), accessed May 2015.  
 3. S. Kemp, "Digital, Social & Mobile Worldwide in 2015," We Are Social, 2015, <http://wearesocial.net/blog/2015/01/digital-social-mobile-worldwide-2015/>, accessed May 2015.  
 4. Digital Planet: Ready for the rise of the e-consumer, Institute for Business in the Global Context, The Fletcher School, Tufts University, 2013, <http://fletcher.tufts.edu/~media/Fletcher/Microsites/Planet%20Biz/Digital%20Planet%20-%20Executive%20Summary.pdf>, accessed May 2015.



**Megatrends: what is driving this accelerated growth?**

There are certain megatrends that are triggering the development of digital strategies throughout industry. These trends consider consumer behavior, shift in distribution channels, digitalization of governments and IT developments that help companies create value for their customers. The drivers for digitalization are pushing companies to adopt a digital strategy. It is up to the companies to decide whether to join the wave of digitalization and define a digital strategy that merges physical and digital resources in innovative ways for their customers and business.

**The new consumer purchase-decision process**

Consumers are now making smarter purchase decisions as they are better informed by the greater amount of available information from television, internet, social media and other communication channels that have changed from unilateral to bilateral, and now to interactive. As a consequence, the internet is becoming part of the buying cycle for information gathering (e.g., via online reviews and bloggers), price comparison and, finally, purchase.

The main consumer groups might no longer rely on traditional types of consumer products companies' advertisements to make purchase decisions. They are now more willing to trust information sources on the internet than any statement on packaging or commercials. This represents an opportunity for companies to become an active voice in the social media universe and engage their customers by joining the conversation.

**The shift in distribution channels**

Distribution channels and retail are transforming: modern retail outlets are rapidly expanding and more traditional stores are slowly losing market share. Hypermarkets, supermarkets, discount stores and convenience stores are starting to target consumers in suburban and rural areas, who in the past had only limited access to large retail chains. For example, convenience stores with sophisticated business models are expanding all over Mexico, competing with small, traditional stores.

**The result of a digital strategy should be the creation of customer value, embedding the same customer experience across all available channels, whether virtual or real-world.**

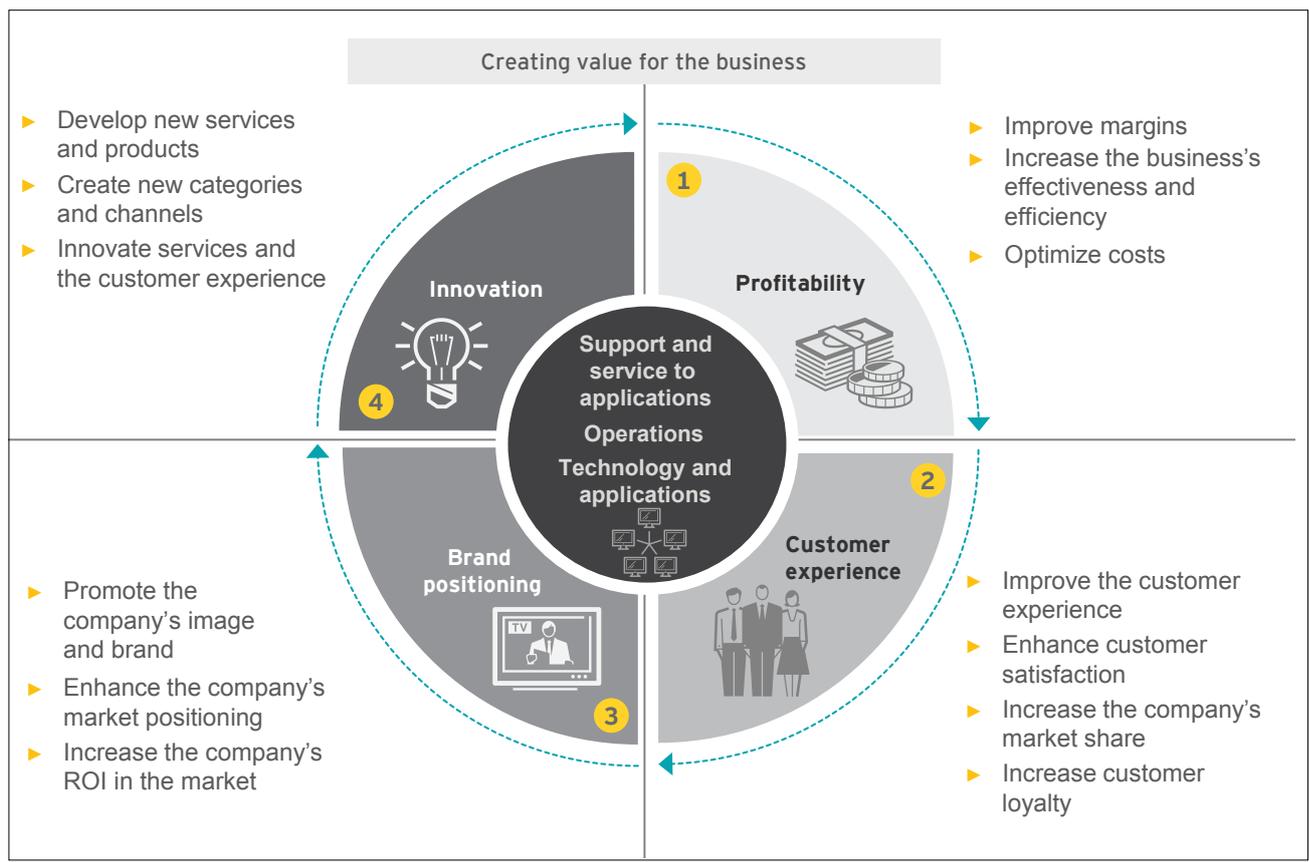
Additionally, in order to fulfill customer needs, companies are adopting an omnichannel strategy, offering a consistent and perfect purchase experience across channels and devices. For instance, many customers may use multiple channels – from mobile, to desktop, to tablet – and still have a personalized experience. This strategy could be confused with the multichannel focus, but the experience offered in each of them is very different.

The adoption of an omnichannel approach triggers the use of technology. The current needs of the market are demanding the use of technology in order to integrate all the processes along the supply chain. Consequently, e-business has become a strategic ally for businesses'

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Figure 3. What are the benefits of a digital strategy?



5. *Recommendation of the Council on Digital Government Strategies*, OECD, 2014, <http://www.oecd.org/gov/public-innovation/Recommendation-digital-government-strategies.pdf>, accessed May 2015.

6. "Gartner Identifies the Top 10 Strategic Technology Trends for 2015," Gartner, 2015, <http://www.gartner.com/newsroom/id/2867917>, accessed May 2015.



transactions, affecting both customers and suppliers.

The shift in distribution channels is a trend that could have a huge impact on a business's distribution strategy, especially in the consumer products industry. Today, distribution is one of the main capabilities and core strengths of any business, and therefore it is important to consider these changes in order to be able to get products to customers at the right time, both in terms of place and price.

**The digitalization of governments**

Governments are meeting their citizens' needs through the digitalization of all their services. Thus, they are using information and communication technologies as an integrated strategic element in order to deliver value. The digital government network comprises public entities, non-governmental organizations, business, associations and individuals, all of whom have access to data and interactive services with the government.

The implementation of a digital strategy within government delivers several benefits,<sup>5</sup> such as:

- ▶ Demonstrating greater transparency, openness and inclusiveness of government processes and operations
- ▶ Promoting financial inclusion
- ▶ Encouraging engagement and public participation
- ▶ Creating a data-driven culture in the public sector
- ▶ Strengthening governance

**IT trends creating value in the market**

There are certain trends in the IT world that are pushing for digitalization of every aspect in the physical world, and an increased emphasis on serving the needs of the mobile user in diverse contexts and environments:<sup>6</sup>

- ▶ The internet of things
- ▶ Advanced pervasive and invisible analytics
- ▶ Cloud and client computing
- ▶ Software-defined apps and infrastructure
- ▶ Risk-based security and self-protection

**How to define a digital strategy**

In order to create a digital strategy, companies should define it by focusing on three main phases:

- 1. Identify the opportunities:** evaluate the client's technological demands by means of a business case in order to justify the investment.
- 2. Define the digital strategy architecture:** develop a diagnosis based on the development of:
  - ▶ Multichannel strategy
  - ▶ Implementation road map
  - ▶ Business case aligned to the corporate strategy, clients and the central and multivariable operating model.
- 3. Evaluate the maturity of the company:** perform a diagnosis that considers the company's current capabilities and their clients' experiences and execute a benchmarking analysis with the industry and best practices. ■