

How To Embrace New Digital Business Models

Capitalize On New Opportunities Before Your Competitors Do

by Julie A. Ask and Martin Gill

January 7, 2016

Why Read This Report

Digital technology has changed and will continue to change how your business makes money. What is new today is the unprecedented pace of change created by a combination of mobile, digital, and infrastructure technologies in the hands of both your employees and your customers. eBusiness professionals have an opportunity to capitalize on both connectivity and the wealth of data that digital tech generates to develop new revenue streams, charge for products and services in new ways, and alter their cost base to create competitive advantage. This report shows you how.

Key Takeaways

Digital Technologies Accelerate The Pace Of Change

New technologies, from trains to cars to the Internet, have disrupted how businesses deliver services to consumers. Digital technologies like mobile are accelerating the pace of this change.

Mobile Changes Your Business Model

Mobile technologies give companies new opportunities to generate revenue from services, products, and pricing strategies and to lower the cost of delivering services.

Use IDEA To Reinvent Your Business Model

Use Forrester's IDEA framework to guide the exploration, creation, and execution of your new business model with digital technologies.

How To Embrace New Digital Business Models

Capitalize On New Opportunities Before Your Competitors Do

by [Julie A. Ask](#) and [Martin Gill](#)

with [Patti Freeman Evans](#), [Peter Burris](#), Laura Naparstek, Alexander Causey, and Rachel Birrell

January 7, 2016

Table Of Contents

- 2 Digital Technology Accelerates Business**
 - Wake Up: It's Never Been A Level Playing Field
 - Just As You're Adapting, Mobile Technologies Rewrite The Rules
- 9 Digital Technology Unlocks New Business Models**
 - Change How You Price To Optimize Profitability
 - Create New Sources Of Revenue
 - Slash Costs While Delivering Scale

Recommendations

14 Use Digital Technology To Reinvent Your Business Model

What It Means

15 New Digital Business Models Mean New Rules Of Business

16 Supplemental Material

Notes & Resources

Forrester interviewed 22 vendor and user companies, including Alibaba, AliveCor, Aviva, CellScope, DreamCheaper, DriveNow, eBay, Fitmo, Jarden, John Deere, Kraft Heinz, Lark, Nudge, Parcel, Pivotal Living, Shutl, Solstice Mobile, Torry Harris Business Solutions, Trunk Club, Under Armour, Volvo Cars, and Vurb.

Related Research Documents

[How Ecosystems Fuel Digital Business](#)

[mHealth Illustrates New Business Opportunities](#)

[Understand The Digital Business Landscape](#)

FORRESTER

Forrester Research, Inc., 60 Acorn Park Drive, Cambridge, MA 02140 USA
+1 617-613-6000 | Fax: +1 617-613-5000 | [forrester.com](#)

© 2016 Forrester Research, Inc. Opinions reflect judgment at the time and are subject to change. Forrester®, Technographics®, Forrester Wave, RoleView, TechRadar, and Total Economic Impact are trademarks of Forrester Research, Inc. All other trademarks are the property of their respective companies. Unauthorized copying or distributing is a violation of copyright law. Citations@forrester.com or +1 866-367-7378

How To Embrace New Digital Business Models

Capitalize On New Opportunities Before Your Competitors Do

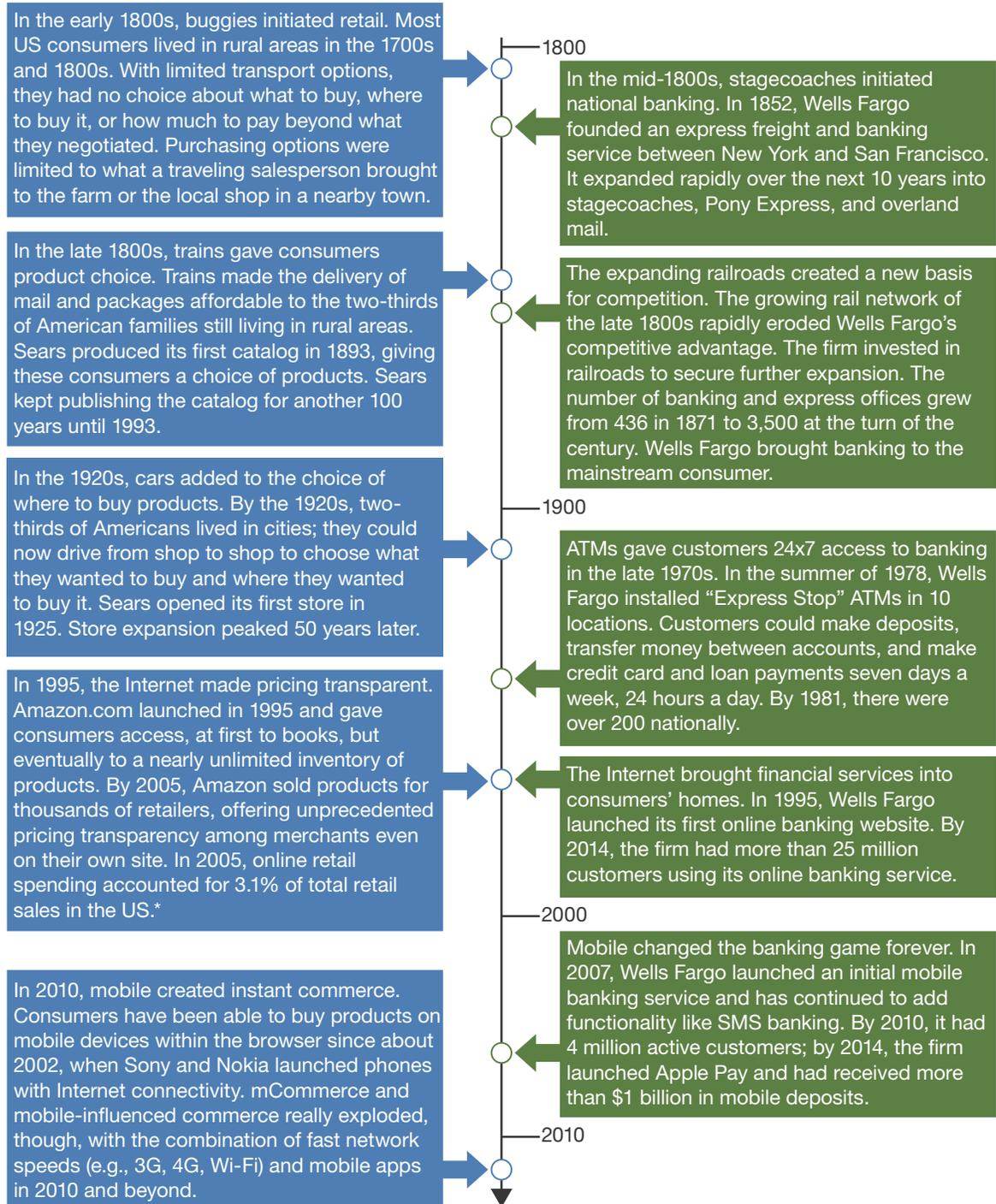
Digital Technology Accelerates Business

For hundreds of years, advances in technology have opened up new opportunities for firms to develop innovative products and services. The printing press, the automobile, the personal computer — businesses and consumers embrace each generation of technology faster than the one before.¹ Traditionally, much of this technology has focused on improving enterprise efficiency. What's different today is the proliferation of digital technology in the hands of your customers.² This creates new opportunities and, as a result, the pace of change in both customer expectations and business possibility is accelerating (see Figure 1). The challenge you face as a digital leader is threefold. First, you must weave seemingly disparate consumer and enterprise technologies into a coherent experience. Second, you must convince your more traditional colleagues that the new opportunities that technology unlocks are worth pursuing and may even represent the future of your firm. And third, your competitors are doing exactly the same thing, only faster.

How To Embrace New Digital Business Models

Capitalize On New Opportunities Before Your Competitors Do

FIGURE 1 Technology Is Accelerating The Rate Of Change In How Businesses Operate



*Source: Forrester Research Online Retail Forecast, 2015 To 2020 (US)

How To Embrace New Digital Business Models

Capitalize On New Opportunities Before Your Competitors Do

Wake Up: It's Never Been A Level Playing Field

The Internet has changed business forever. Visionary firms like Amazon, Expedia, and Intuit have established new business models and new ways of scaling to millions of customers. Digital professionals in a range of industries are now adept at using mature Internet technologies to change how they compete, yet many firms still struggle to grasp even the basic rules of the digital business environment. As a digital leader, it's your job to convince your C-suite that you and, critically, your competitors can already:

- › **Continually enhance physical products in line with how customers really use them.** More and more products today, from home electronics to clothing, collect and transmit data. Their software is continually updated to offer new features and fix bugs. As connected products fast become a mainstream reality, digital professionals must learn from the likes of Nest, Nike, Tesla, and Whistle to take data-driven insight on how customers really use their physical products and feed it into their ongoing product development plans. Whistle collected data from many breeds and ages of dogs to build a baseline model to allow it to track activity before launching its dog pedometer; a Chihuahua runs very differently from a Vizsla, for example. Whistle continues to improve its accuracy through data collection and analysis.
- › **Disintermediate slow movers.** Digital business professionals that can build a compelling digital customer experience create opportunities to disintermediate other suppliers. There are obvious examples, like Intuit or Hipmunk, but this also happens in the B2B world. Expedia's API allows thousands of websites to offer their customers the ability to reserve and book rooms and flights via Expedia's booking engine. Travel distributors like Amadeus and Sabre also offer APIs. Yet Expedia's speed to market, ease of use, and ability to connect both directly to airlines like American Airlines and to travel distributors allows it to offer the best possible pricing. Expedia has succeeded in driving more than \$2 billion of trade annually through its own APIs, disintermediating the distributors' almost identical direct APIs.³ Digital leaders who aren't already thinking about how their firm operates in a wider ecosystem risk being blindsided.
- › **Globalize your customer base to drive rapid scale.** The Internet transcends borders, giving consumers access to products from those firms ready to scale and ship globally. A strong global business fuels the growth of UK-based, fast-fashion online retailer Asos. While home-market sales in the UK are solid, 58% of Asos' sales now come from global markets, up from 25% in 2010.⁴ Even traditionally tough global markets are easier to enter than ever before. Alibaba's online marketplace for third parties is the first stop for many brands entering the Chinese market. Alibaba has the infrastructure for payments and shipping along with a ready customer base to help foreign companies like Gap and Nike scale quickly.
- › **Drive the instant rental and purchase of digital goods.** Broadband connectivity has changed media, gaming, and entertainment. Not only can publishers distribute games or media instantly, eliminating a whole class of firms like Blockbusters that previously specialized in distribution, they can also upsell virtual goods within those games on an ongoing basis. This shifts their customer

How To Embrace New Digital Business Models

Capitalize On New Opportunities Before Your Competitors Do

engagement model from a transactional relationship to an ongoing service relationship. Firms like Apple and Netflix are in the vanguard of an on-demand, consumption-based customer relationship, while traditional media firms like the BBC are increasingly launching digital services like iPlayer to complement their traditional broadcast services.

- › **Use artificial intelligence to democratize access to guidance.** Many firms today, especially in healthcare and financial services, believe that high switching costs and a service model that depends on highly trained staff immunize them from disruption. Their confidence is groundless. Two disrupting factors are in play. First, companies like Apple, Google, and Microsoft are developing platforms that allow consumers to share their health data, while individual apps are opening APIs to allow consumers to share even more data from their car, home, and financial services. Second, artificial intelligence has advanced to the point of offering very human-like coaching. Delivered on a mobile device in real time in small doses, coaching can change consumers' behavior more effectively than limited, in-person sessions — helping them make better decisions in their moment of need.

Just As You're Adapting, Mobile Technologies Rewrite The Rules

Over the next five years, digital leaders have an unprecedented opportunity. Right now, mobile moments blanket the world. Soon, they will surge well beyond mobile phones — first to connected products like the Nissan Leaf or the Nest thermostat, and then beyond. This will erase the old boundaries of physical and digital, product and service (see Figure 2). Digital professionals who see mobile, the Internet of Things (IoT), data, and advanced analytics as separate technology initiatives will flounder. Those who focus obsessively on delivering convenient, simple, and context-aware moments will thrive as consumers increasingly embrace connected technologies for fitness, health, entertainment, home security, insurance, travel, and more (see Figure 3).⁵ Tomorrow's savvy digital professionals will:

- › **Separate service from place.** The Internet introduced the concept of separating a service from a location. Telemedicine allowed for remote care and diagnosis for services like radiology. Mobile extends that opportunity in three primary ways: 1) It extends services to anyone with a cell phone, which lifts the addressable population from only those with fixed broadband and a PC to most of the world's population; 2) it adds a live video or photo feed (think microscopic images to diagnose illnesses); and 3), it allows you to collect data from attachments to the phone like EKG meters, pedometers, and more.
- › **Monitor people and products in real time.** Wireless networks enable you to harvest data from connected products, be they cars, thermostats, or skin patches. Gentag offers skin patches that collect physiological information to allow healthcare providers to monitor patients newly released from the hospital, allowing them to go home earlier. American Express notifies consumers using Apple Pay of each transaction to enlist their help in fraud prevention. The wealth of real-time data that digital business professionals can now capture doesn't just drive insight; it creates opportunities to monetize services in new ways.

How To Embrace New Digital Business Models

Capitalize On New Opportunities Before Your Competitors Do

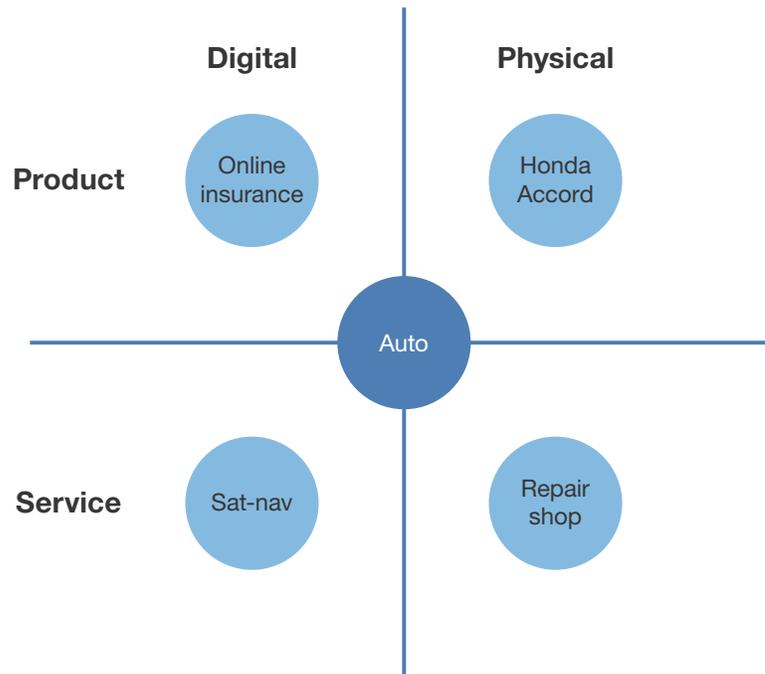
- › **Layer value-add services onto products.** A successful connected product — be it a car, a pedometer, or a coffee machine — is a coherent bundle of a physical product, sensors, mobile apps, and services that help a consumer make the best use of it. Consumer and industrial examples abound. Whistle’s dog pedometer connects to an app that lets owners know when the battery is low or if they haven’t synched the data recently. The Nike Plus ecosystem connects dozens of apps and devices to give athletes detailed performance data. Tesla’s app allows owners to control the car, find it on a map, and much more. Digital business professionals must increasingly work with product design and development teams to help connect sales to ongoing service experiences.
- › **Use context to streamline task flow and curate services.** Connected devices provide phenomenal amounts of context, like location, offering insights into consumer needs and motivations. Savvy digital business pros can mine this insight to anticipate customer needs, streamlining their experience. Uber changes service options based on location. Depending on whether you’re in San Francisco, Portland, or Hangzhou, China, Uber may offer you food, a bike rack, or a Tesla. Amazon allows Prime customers to order preselected products like Tide or Shout with the press of a branded Dash button right in their moment of need. This demands that digital business pros adopt an outside-in, customer-centric design mindset.
- › **Connect supply and demand in real time.** Location technologies connect consumer demand with supply in real time. Uber and Lyft connect the people or goods needing transportation with the drivers lured into the market by lucrative rates. Amazon piloted discounts based on user location. Courier Shutl connects merchants and couriers in real time to create a same-day delivery network in cities like London and New York. The same will hold true for a range of other products, including utilities, banking, and services in the shared economy.

How To Embrace New Digital Business Models

Capitalize On New Opportunities Before Your Competitors Do

FIGURE 2 Digital Overcomes Traditional Product, Service, Physical, And Digital Boundaries

2-1 | Old-world business models



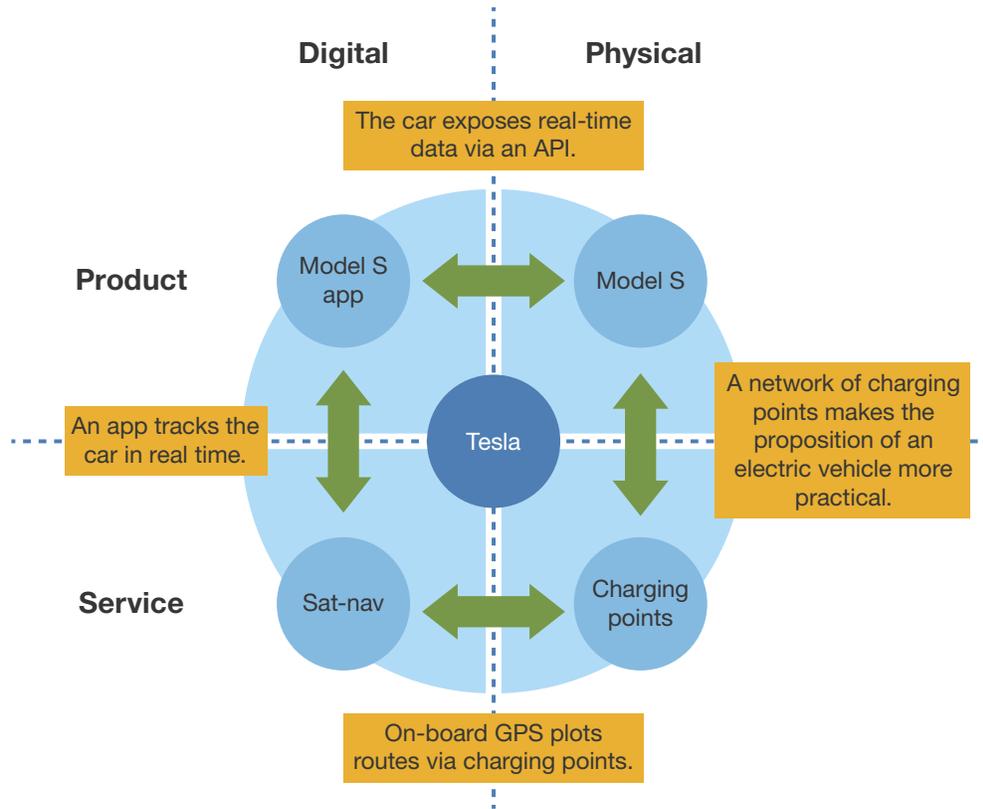
In the old world, products and services were discrete entities. Each lacked data and context about the others.

How To Embrace New Digital Business Models

Capitalize On New Opportunities Before Your Competitors Do

FIGURE 2 Digital Overcomes Traditional Product, Service, Physical, And Digital Boundaries (Cont.)

2-2 | Next-generation business models

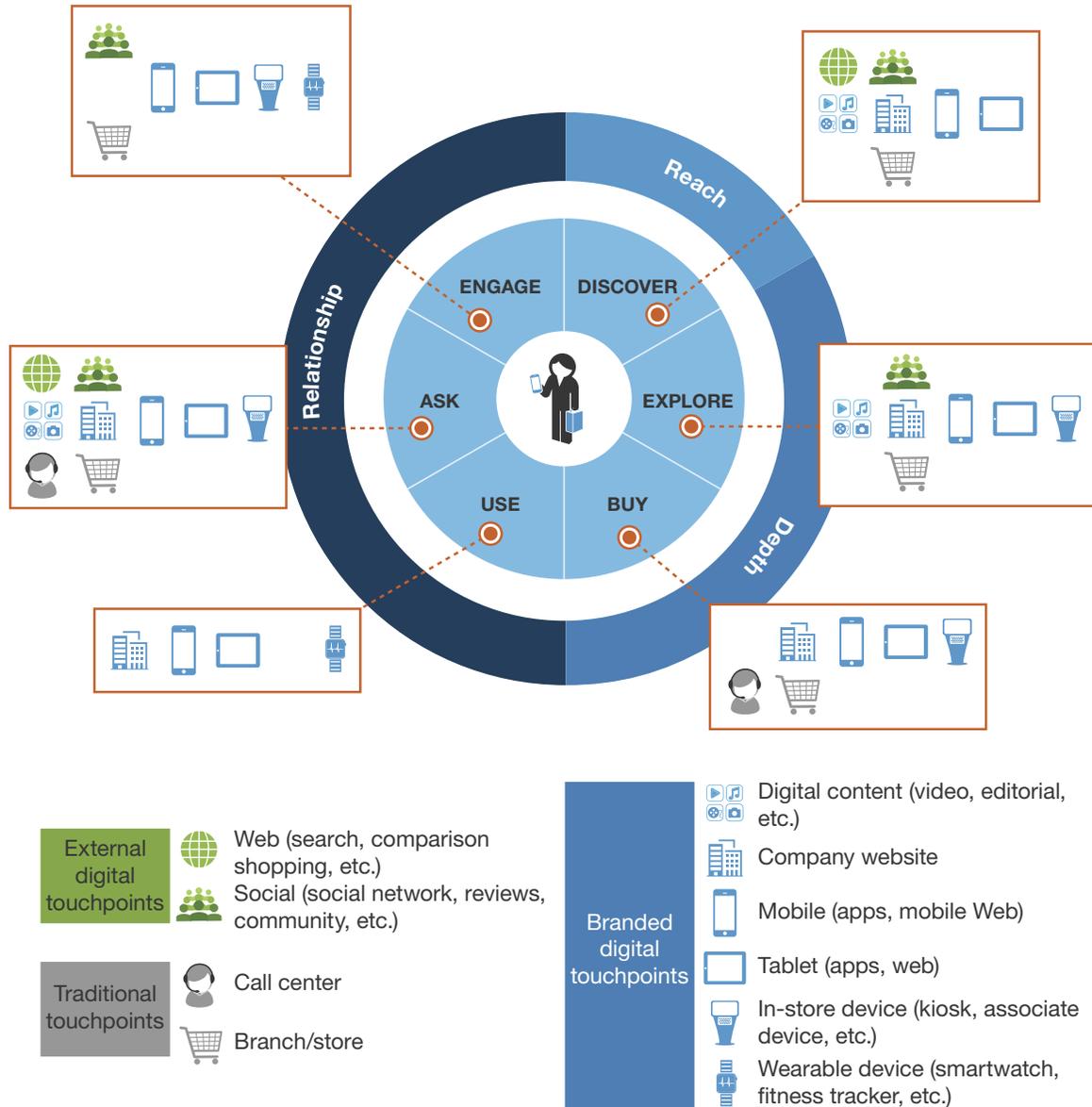


Next-generation business models break down the product/service/digital/physical boundaries to orchestrate context-aware, data-enabled experiences. Tesla orchestrates a set of digitally connected products and services to create an overall experience ecosystem for its customers.

How To Embrace New Digital Business Models

Capitalize On New Opportunities Before Your Competitors Do

FIGURE 3 Connected Technologies Create New Opportunities Throughout The Customer Life Cycle



Digital Technology Unlocks New Business Models

Today’s digital business professionals have the potential to fundamentally alter their firm’s business model. What’s more, digital breaks down old distinctions between product and service, challenging not only how customers consume and pay for products and services but also who in your firm is accountable for design, delivery, and the associated P&L. Many firms are piloting new ways of pricing and selling their product, creating new revenue streams, and cutting costs at scale. Yet so many of

How To Embrace New Digital Business Models

Capitalize On New Opportunities Before Your Competitors Do

these initiatives are new that concrete results are rare. While there are many definitions of a “business model” — ranging from Peter Drucker’s “assumptions about what a company gets paid for” to more rigorous frameworks like Alex Osterwalder’s nine-part business model canvas — many verge on the purely theoretical.⁶ To compete in the age of the customer, digital business professionals must focus on three critical questions:

1. How can I optimize existing revenues?
2. How can I create new revenue streams?
3. How can I optimize my cost base?

Change How You Price To Optimize Profitability

Flexible pricing isn’t new. Airlines, car dealerships, and hotels have long used dynamic pricing to maximize profitability based on the supply and demand of their goods and services. However, new technologies give digital business professionals more tools to alter their basis for pricing. Now, digital business pros in industries like retail, transportation, insurance, and healthcare can alter pricing based on supply and demand to maximize their profits because:

› **Consumption data mitigates the need to rely on estimates or consumer recollection.**

Most firms base the pricing of services on anticipated rather than actual consumption or usage. Remote monitoring in the form of mobile, GPS, or sensor-enabled devices allows digital business professionals to track and therefore charge for actual consumption. For example, Metromile charges customers for automotive insurance based on actual mileage. Ford’s GoDrive service, launched as a trial in London, enables customers to “rent” Ford cars on a pay-by-the-mile basis.⁷ Customers benefit from reduced costs. Businesses benefit from more effective asset optimization and a focus on delivering customer outcomes.

› **Behavioral data creates more-accurate models and validates assumptions.** Digital business professionals with access to data on how customers really behave, rather than how they are expected to behave, can price in line with real use. Progressive Insurance’s Snapshot product plugs into its customers’ in-car OBD-II port to monitor speed, acceleration, braking, mileage, etc. Progressive rates customers based on how they actually drive, rather than traditional indicators of how they are expected to behave like age, gender, or address. This helps Progressive charge customers based on the more accurate cost of insuring them as individuals rather than spreading or sharing the cost across a community of drivers.⁸

› **Location data enables pricing flexibility.** Digital business pros who understand where their customers are relative to their products can both sell more and increase prices based on localized demand among less price-sensitive customers. Uber is famous for using dynamic pricing to match supply and demand. First, it uses location to identify the amount of demand and capacity in a local

How To Embrace New Digital Business Models

Capitalize On New Opportunities Before Your Competitors Do

area: If capacity exceeds demand, prices drop; if demand exceeds capacity, prices increase to attract more drivers. Everything from taxis to umbrellas and rubber boots is more valuable when it's raining — especially if the rain wasn't forecast.

- › **Compliance data ensures the promised value exchange.** Compliance is most often associated with healthcare, but it can apply to any agreement in place between a company and its customers. Mobile technology can help track compliance. For example, insurance companies subsidize medication for consumers because treating conditions early lowers the total cost of healthcare, minimizing the need for more expensive treatment as conditions escalate. This value exchange only works, however, if consumers comply with their doctor's instructions. Merck has made strides toward changing the cost of human growth hormone treatment in the UK by tracking compliance with prescribed programs to ensure maximum value to both consumers and the NHS.
- › **Timing data can link pricing to customers' need for immediacy.** Knowing "when" a customer is relative to an event — for example, that they need a delivery now or that a service is expiring — enables digital business pros to flex pricing based on the urgency of that need and their likely declining price-sensitivity. In Australia, Telstra uses aggressive pricing to encourage consumers to add minutes, messages, and data before they run out. Doing so puts more money in the bank for Telstra. As customers near the end of their allotment and become more desperate, Telstra has fewer incentives to discount. In 2014, Candy Crush gamers spent \$1.3 billion on extra lives, moves, and color bombs to extend and enhance their play time.⁹ Measuring real-time consumption makes these pricing strategies possible.

Create New Sources Of Revenue

As technology blurs the boundaries between product and service, digital business pros have the opportunity to leverage existing assets or create new ones to generate entirely new sources of customer value — and therefore revenue. Digital business professionals can use technology to:

- › **Access new customers.** Mobile phones do more than create mCommerce opportunities. They give digital professionals access to customers who previously weren't connected to either the Internet or a physical outlet like a bank branch.¹⁰ Vodafone and Barclays provide banking services to the unbanked in Africa via their mobile account. Maine fishermen can sell tens of thousands of pounds of lobster to customers in China via Alibaba.¹¹ India's Payworld app gives consumers access to cash withdrawals from participating retailers where ATMs are unavailable.¹²
- › **Develop new service offerings.** The combination of mobile apps and connected products allows firms to sell services along with their products. Fitness wearable companies offer premium services like coaching and feedback to help customers achieve their goals. AliveCor doesn't just sell a mobile phone attachment that takes EKG readings; it also offers on-demand analysis to those willing to pay.¹³

How To Embrace New Digital Business Models

Capitalize On New Opportunities Before Your Competitors Do

- › **Deliver customer outcomes, rather than just selling products.** Techniques like design thinking help digital business executives understand the outcomes their customers want, such as securing their homes, getting to the grocery store, or cooking healthy food. In 2013, Philips announced a crockpot that used SMS to coach customers through recipes to get the best results and avoid overcooking dinner. In Seattle, ThyssenKrupp Elevators is trialing sensor-enabled elevators that use real-time predictive and even preemptive maintenance data to guarantee greater reliability, enabling it to sell uptime to building owners.¹⁴ Many outcome-based business models are fledgling, though some, like Rolls Royce's "Power by the Hour," are well established and demonstrate the wider application of this approach.¹⁵
- › **Become a platform that connects customers to drive rapid scale.** Ecosystem-powered businesses like Airbnb and Uber leverage peer connections or content to create scale.¹⁶ Traditional business are following suit. Alibaba, Amazon, and Apple's App Store offer some of the largest global examples, but there are many more. Line, a global Japanese communication app, generated \$263 million primarily through the sale of user-generated stickers in its Creator Market in Q3 2015.¹⁷ The same can apply in B2B scenarios.¹⁸ For example, luxury fashion retailer Yoox generated 27% of its 2014 revenues from its "powered by Yoox" platform business. Its B2B income showed better operating profit growth and operated at a significantly better margin than its B2C business.¹⁹
- › **Create new value with insights from data.** Digital business pros can monetize insights directly or embed them into the services they sell.²⁰ Imagine this scenario: Life360 is a family platform that tracks the location of family members and facilitates communication among them. Google's Nest Protect can detect smoke and carbon monoxide. How much more valuable would Nest Protect be if it knew who was at home or moving based on a combination of its own sensor data and Life360 data and could forward that information to the fire department with a 911 call? Ingersoll offers an example of monetizing data today. It is using data to understand better the wear patterns of components in HVAC equipment in the field, both to anticipate system failures in the field and to offer services to help building managers lower energy consumption.²¹

Slash Costs While Delivering Scale

Digitally enabled employees and processes can reduce operating costs; streamline inventory holding; free frontline employees to act on higher-value, customer-experience-enhancing tasks; and improve organizational efficiency. This digital operational excellence often goes hand in hand with enhancing customer experiences.²² Building new digital services by using pay-on-demand, cloud-based infrastructure is how startups like Betterment manage to scale cost-effectively — and it's how traditional firms like BMW and Sixt launch fast-to-market, digital-first services like DriveNow. These concerns haven't traditionally appeared on digital professionals' agenda. But as their remit expands to include digital stores and the blending of online and offline product experiences, today's digital execs must increasingly lead the charge to:

How To Embrace New Digital Business Models

Capitalize On New Opportunities Before Your Competitors Do

- › **Make employees smarter.** Firms count on service personnel to retain extensive technical knowledge in order to do their jobs. Augmenting expertise with tablets, mobile phones, or even augmented or virtual reality headsets can make employees more effective. Dish Networks gave service personnel a tool to help them align new antenna installations. It also put all of the information a field technician needs — customer information, installation details, and service transactions — into the hands of the technicians. Along with a new dispatch system, this combination of digital technologies improved productivity — the number of visits per day — by 10% and did it with 15% less overtime cost.²³
- › **Extend the reach and range of limited resources.** Face-to-face meetings demand travel or local access to expertise or services. The healthcare industry has long relied on digital to maximize the use of expensive resources like cardiologists or radiologists. Mobile extends reach to even more customers and allows for shorter, asynchronous interactions within mobile moments. Fitmo uses mobile to connect consumers to private coaches who can use aggregated data from multiple sources to guide consumers only in those mobile moments where they need coaching.
- › **Collect remote data from hard-to-reach places.** Sensors generate data that gives firms insights about the operational or maintenance needs of hard-to-reach places like bridges, towers, fields, and light poles or remote locations like oil rigs, deserts, and mountains. Firms like Cummins Engine use wireless networks and drones to collect this data more safely and cost-effectively by eliminating unnecessary personnel trips to these dangerous or difficult places. Remote data collection also facilitates more cost-effective customer service of connected products, such as cable modems, wind turbines, machinery, content/video receivers, and computers.²⁴
- › **Route service personnel more efficiently.** The combination of mobile and location technology allows more efficient routing of field service personnel in two key ways. First, you can dispatch personnel according to their distance and travel time, which can be affected by traffic or other conditions. Second, with machine-to-machine communications, you can avoid unnecessary trips. Tcho used remote monitoring in its chocolate labs to minimize and eliminate long shifts and middle-of-the-night facility visits.
- › **Scale via extended ecosystems.** Traditional firms own assets, resulting in high fixed costs and a lack of agility. Digital businesses like Airbnb scale by accessing underutilized assets that other firms own or by offering their own assets to the open market. Digital business professionals can access this same competitive advantage. Retailers like Asos, Fnac, and Tesco have expanded their customer offers and assortments via marketplaces, where participating retailers hold the risk and cost of inventory. Staples is doing the same in its B2B assortment.²⁵ Meanwhile, banks like BBVA Compass and Citi are exposing services like payments via APIs to position themselves as potential ecosystem platforms of the future.²⁶

How To Embrace New Digital Business Models

Capitalize On New Opportunities Before Your Competitors Do

Recommendations

Use Digital Technology To Reinvent Your Business Model

Digital technology will change both the products and services you deliver to your customers and how you deliver them. The only open questions will be how well you adapt and use technology to meet the needs of your customers and make money doing so. Use Forrester's IDEA framework to guide you as you explore, create, and execute your new business model.²⁷ Digital business executives will find that experimentation is vital. Some new ventures are bound to fail, while others could well grow to become your firm's future business model. Take General Electric, which expects to triple its software revenues by 2020, generating more than \$15 billion from the industrial application of digital technology.²⁸ Its belief in digital is so complete that it is divesting its \$30 billion commercial leasing and lending portfolio to Wells Fargo. To separate the good ideas from the bad, you must:

- › **Start with your customers and your assets.** Don't start by thinking about your current business. Think about your customers: What do they need? What's their biggest problem? When Johnson & Johnson thinks about its customers — parents of new babies — it realizes they need help with getting the baby to bed. That's why the company created an app called Bedtime, not one called Mobile Baby Powder. Alternatively, think about your assets — partnerships, manufacturing plants, institutional competencies. In what new ways could you apply those assets in a world of mobile moments? Where can you generate new value or use dynamic pricing to grow revenue? Where can you use technology to be more efficient? If your products aren't connected, can you bring them online to layer services or help customers meet their true needs through apps?
- › **Design for mobile moments.** That's where your customer will be. Even if they're in your store, they are mobile. Even if they are on your website, they are mobile. Even if they are waiting for your call center agent, they are mobile. Use Forrester's IDEA framework here to identify, design, and execute on the most important mobile moments. And as no one gets it right the first time, use analytics to iterate and improve. You must "follow your customers home," in the words of Intuit CEO Brad Smith. Know their habits and context because you want to serve them. Know what tasks they care about, what actions they want to take, and what information they need to feel confident in taking that next step. Assess whether or not you can charge for this additional service.
- › **Rent what you need; own what you must.** Don't expect to have all of the equipment and skills you need at first. Rent servers and software. Hire expertise. A horde of technology and service providers and platforms are out there to help. But don't abdicate responsibility for the essential components of the applications and platform. Hire for critical roles like product managers, customer experience designers, data scientists, and lead technologists. Transfer skills from your partners to your staff. Establish long-term relationships with trusted partners in which you pay for success, not just completion.

How To Embrace New Digital Business Models

Capitalize On New Opportunities Before Your Competitors Do

- › **Be ready to launch, learn, and adjust.** Nobody gets it right the first time. It's why we've continually emphasized the importance of agile, multidisciplinary teams of product managers, product marketers, developers, designers, and technology professionals working in two or three-week sprints and a continuous improvement cycle. Feed these product teams with timely data on how real customers use your products, and accept that they will need to keep iterating as customer expectations change. Your role as a digital business leader is to manage other senior stakeholders for whom the concept of iterative delivery is still alien.

What It Means

New Digital Business Models Mean New Rules Of Business

As digital business executives embrace and ramp up new pricing models, charging structures, and operating models like P2P ecosystems, the implications for their business will be far-reaching. In the short term, many traditional businesses will see new digital revenue streams deliver small incremental gains, but as firms begin to shift their revenue models away from the traditional toward models like those outlined in this report, digital business professionals will find that:

- › **Business model, customer experience, and product strategies are intertwined.** Digital business forges an intrinsic bond among your business model, customer experience, and product strategies. All have an impact on technology design. This is a fundamental shift for both digital business executives and their technology management counterparts, demanding an ever-tighter working relationship to transform how their firm designs, develops, and delivers new products and services as well as the technology needed to underpin these. The foundations of this shift are next-generation software architectures that embrace the cloud, faster development of new products, and continuous improvement methodologies.
- › **Traditional accounting approaches fail.** Embracing new operating models like the sharing economy, renting services on a pay-as-you-go basis, and leveraging software-as-a-service (SaaS) platforms mean that cost structures change. Budget allocations for traditional assets like software or supply chain will shift from capex to opex as digital business executives purchase services on demand. Revenues will shift from one-off purchases by customers to lease-based models where customers pay for access and services. This will challenge traditional markers of business health, like return on capital employed.
- › **Narrow metrics make new business models look lackluster.** Many digital business professionals will find that shifting to consumption-based pricing lowers the revenue they see on a given transaction, as customers pay only for what they need. Isolated product or transaction metrics will fail to demonstrate a wider success story. Metrics like customer lifetime value, retention, and wallet share will become increasingly vital to demonstrate overall success as firms pivot their revenues from traditional sources to new digitally driven ones.

How To Embrace New Digital Business Models

Capitalize On New Opportunities Before Your Competitors Do

- › **Data is an undervalued intangible asset on the balance sheet.** Data underpins digital business models, which makes data an asset that has value and that demands protection. This introduces new risks, as UK online pharmacy Pharmacy2U found when it was fined for selling customer data.²⁹ It also creates opportunities to both monetize and value that data differently, as US telcos AT&T and Verizon have done by charging the NSA fees to access phone records.³⁰ Few firms list data as an intangible asset on their balance sheet — yet; however, as more firms embrace new digital business models, accounting practices will have to adapt accordingly.

Engage With An Analyst

Gain greater confidence in your decisions by working with Forrester thought leaders to apply our research to your specific business and technology initiatives.

Analyst Inquiry

Ask a question related to our research; a Forrester analyst will help you put it into practice and take the next step. Schedule a 30-minute phone session with the analyst or opt for a response via email.

[Learn more about inquiry](#), including tips for getting the most out of your discussion.

Analyst Advisory

Put research into practice with in-depth analysis of your specific business and technology challenges. Engagements include custom advisory calls, strategy days, workshops, speeches, and webinars.

[Learn about interactive advisory sessions](#) and how we can support your initiatives.

Supplemental Material

Companies Interviewed For This Report

Alibaba

DriveNow

AliveCor

eBay

Aviva

Fitmo

CellScope

Jarden

DreamCheaper

John Deere

How To Embrace New Digital Business Models

Capitalize On New Opportunities Before Your Competitors Do

Kraft Heinz

Solstice Mobile

Lark

Torry Harris Business Solutions

Nudge

Trunk Club

Parcel

Under Armour

Pivotal Living

Volvo Cars

Shutl

Vurb

Endnotes

- ¹ Over the past 10 years, the forces that have placed us in the age of the customer have stimulated a rise in novel behavior among consumers. The next 10 years will put the past 10 to shame, ushering in a new stage in consumers' behavior that we are calling hyperadoption. Thanks to hyperadoption, your customers will eagerly adopt new behaviors that you previously would have had difficulty imagining. As the CMO — the holder of the keys to the customer — you will be unable to keep up if you fail to understand what makes these new experiences not only possible but also inevitable. Forrester explains how the digital disruption of consumers' cognition forever alters the relationships that consumers have with brands. Read this report to understand how you can successfully participate in the next big thing that consumers do by building the right connection with the right customers at crucial moments in the hyperadoption cycle: attention, intention, and action. See the "[Will People Really Do That?](#)" Forrester report.
- ² The age of the customer is here. To prove this, we analyzed recent economic and survey data and reviewed the practices of over a dozen companies that have made customer-focused transformations. We found that customers are now more mobile, consume more reviews, and buy more online than ever before. Companies must respond by becoming customer-obsessed and adopting four mutually reinforcing market imperatives: 1) Get a quick start by embracing the mobile mind shift, 2) attain maximum customer intelligence by turning big data into business insights, 3) seek a broad impact by transforming their customer experience, and 4) become more effective by accelerating their digital business. This transformation happens locally, from the bottom up, and globally, with the backing of the CEO, CIO, and CMO. See the "[Winning In The Age Of The Customer](#)" Forrester report.
- ³ Source: John Fontana, "Billions of API calls traversing Web, redefining 'software'," ZDNet, May 23, 2012 (<http://www.zdnet.com/article/billions-of-api-calls-traversing-web-redefining-software/>).
- ⁴ Source: "Annual Report And Accounts 2015," Asos (<http://www.asosplc.com/~media/Files/A/ASOS/results-archive/pdf/2015-annual-report.pdf>) and "Annual Report & Accounts 2010," Asos (<http://www.asosplc.com/~media/Files/A/ASOS/results-archive/pdf/AnnualReport2010.pdf>).
- ⁵ For more information on consumer interest in connected products or the Internet of Things, see the "[The State Of Consumers And Technology: Benchmark 2015, US](#)" Forrester report.
- ⁶ Source: Andrea Ovans, "What Is a Business Model?" Harvard Business Review, January 23, 2015 (<https://hbr.org/2015/01/what-is-a-business-model>).
- ⁷ Source: Ben Woods, "Ford launches pay-per-minute GoDrive carsharing service in London," The Next Web, May 26, 2015 (<http://thenextweb.com/uk/2015/05/26/ford-launches-pay-per-minute-godrive-carsharing-service-in-london/>).
- ⁸ Smart devices, smartphones, and smart cars are converging to create what should be a smart insurance choice for safe drivers and their insurers: usage-based insurance (UBI). The policy option is a win-win for the insured and the insurer: Customers pay lower premiums and improve their driving, while insurers attract safer and lower-risk drivers. With such a great value proposition, it's not surprising that Americans are interested in usage-based coverage. What

How To Embrace New Digital Business Models

Capitalize On New Opportunities Before Your Competitors Do

is surprising is how few US consumers have actually bought it. This report examines US consumer interest in and adoption of usage-based car insurance and the obstacles to purchase, many of which point directly to insurance eBusiness failings. See the "[The Next Act For Usage-Based Car Insurance](#)" Forrester report.

⁹ Source: Joe Rossignol, "Candy Crush Saga Players Spent Over \$1.3 Billion on In-App Purchases in 2014," MacRumors, February 13, 2015 (<http://www.macrumors.com/2015/02/13/candy-crush-saga-revenue-2014/>).

¹⁰ Alibaba in China offers one example. Alibaba assists foreign countries that want to enter the Chinese market. Mobile is an important channel in China. Alibaba generated \$846 million in mCommerce sales in Q1 2015 among 289 million active mobile customers. This often shifts digital business executives' focus to new markets.

¹¹ Source: Tom Bell, "From Down East to the Far East, lobster exports expand," Portland Press Herald, January 4, 2015 (<http://www.pressherald.com/2015/01/04/from-down-east-to-the-far-east-lobster-exports-expand/>).

¹² Source: "India's Payworld offers cash access in locales without ATMs," Mobile Payments Today, November 19, 2015 (<http://www.mobilepaymentstoday.com/news/indias-payworld-offers-cash-access-in-locales-without-atms/>).

¹³ Source: "Why use it," AliveCor (<http://www.alivecor.com/why-use-it>).

¹⁴ Source: "2014 Annual Review," CGI (<https://www.cgi.com/sites/default/files/pdf/cgi-2014-annual-review.pdf>) and "CeBIT: ThyssenKrupp Elevator presents innovative service solution," ThyssenKrupp press release, March 16, 2015 (https://www.thyssenkrupp.com/en/presse/art_detail.html&eid=TKBase_1426444123703_1098046008).

¹⁵ Source: "Rolls-Royce celebrates 50th anniversary of Power-by-the-Hour," Rolls Royce press release, October 30, 2012 (<http://www.rolls-royce.com/news/press-releases/yr-2012/121030-the-hour.aspx>).

¹⁶ Similarly, Lending club has issued more than \$13 billion in loans since its 2008 inception; in the UK, Santander partners with P2P lender Funding Circle to offer small business loans.

¹⁷ Source: Catherine Shu, "Line's User-Generated Sticker Market Made \$75M During Its First Year," TechCrunch, May 18, 2015 (<http://techcrunch.com/2015/05/18/line-creators-market-freshman-year/>).

¹⁸ For instance, Russia's fast-moving eCommerce market is notoriously difficult for Western firms to break into. One of Russia's largest eCommerce firms, Ozon, offers other retailers access to its merchandising, payment, and fulfillment operations to help them get started.

¹⁹ Source: "Annual Report 2014," Yoox (<http://cdn3.yoox.biz/cloud/yooxgroup/uploads/doc/2015/Bil-YOOX-14-ENG-finale.pdf>).

²⁰ Businesses may even use a freemium model to harvest data from consumers. Value is captured not only through revenue but also through asset accumulation. They can use data to offer premium services or to sell it to or barter it with third parties.

²¹ Source: Bob Tita, "Big Data Gives Manufacturers a New Revenue Source," The Wall Street Journal, June 2, 2015 (<http://www.wsj.com/articles/big-data-gives-manufacturers-a-new-revenue-source-1433185734>).

²² Business leaders don't think of digital as central to their business because in the past, it hasn't been. But now your customers, your products, your business operations, and your competitors are fundamentally digital. To win in this new world, eBusiness leaders must see their businesses as fundamentally digital. Do this, and you can become a digital predator; fail, and your business will become digital prey. This report sets out the vision of digital as a catalyst for your business transformation to win, serve, and retain customers in the age of the customer. See the "[The Digital Business Imperative](#)" Forrester report.

²³ Source: Ted Schadler, Josh Bernoff, and Julie Ask, *The Mobile Mind Shift: Engineer Your Business to Win in the Mobile Moment*, Groundswell Press, 2014.

²⁴ A combination of technologies is set to create new business opportunities. Unmanned aerial vehicles (AKA drones) are a prime example. Today, companies are experimenting with drones at short ranges to collect sensor data and capture video, but the next leap in value will come from beyond-line-of-sight operations that enable automated delivery and

How To Embrace New Digital Business Models

Capitalize On New Opportunities Before Your Competitors Do

autonomous inspection of infrastructure. This report examines early adoption scenarios for commercial drones and inhibitors to further disruption. See the “[Drones’ Early Commercial Use Cases Show Value, Not Disruption – Yet](#)” Forrester report.

²⁵ Source: Paul Demery, “Staples expands e-commerce via marketplace sales,” Internet Retailer, October 28, 2013 (<https://www.internetretailer.com/2013/10/28/staples-expands-e-commerce-marketplace-sales>).

²⁶ Source: Penny Crosman, “Fintech Glasnost: Why U.S. Banks Are Opening Up APIs to Outsiders,” American Banker, July 8, 2015 (<http://www.americanbanker.com/news/bank-technology/fintech-glasnost-why-us-banks-are-opening-up-apis-to-outsiders-1075284-1.html?zkPrintable=1&nopagination=1>).

²⁷ Your customer is experiencing a mobile mind shift: the expectation that she can get what she wants in her immediate context and moments of need. As a result, mobile is central to customer experience. Mobile provides eBusiness and channel strategy professionals with opportunities to transform commerce and service experiences online and in physical locations. To master these moments, use the IDEA cycle: Identify the mobile moments and context; design the mobile engagement; engineer your platforms, processes, and people for mobile; and analyze results to monitor performance and optimize outcomes. This report explains how to apply the IDEA cycle to transform customer experiences with mobile. For more information, see the “[Mobile Moments Transform Your Commerce And Service Experiences](#)” Forrester report.

²⁸ Source: Lewis Krauskopf, “General Electric sees digital revenue tripling to \$15 billion by 2020,” Reuters, September 29, 2015 (<http://www.reuters.com/article/2015/09/29/us-general-electric-digital-idUSKCN0RT2KD20150929#tyIMZlgfBQ7pKgM0.97>).

²⁹ Source: “Online pharmacy fined for selling customer data,” BBC News, October 21, 2015 (<http://www.bbc.co.uk/news/technology-34570720>).

³⁰ Source: Robert Lenzner, “ATT, Verizon, Sprint Are Paid Cash By NSA For Your Private Communications,” Forbes, September 23, 2013 (<http://www.forbes.com/sites/robertlenzner/2013/09/23/attverizonsprint-are-paid-cash-by-nsa-for-your-private-communications/>).

We work with business and technology leaders to develop customer-obsessed strategies that drive growth.

PRODUCTS AND SERVICES

- › Core research and tools
- › Data and analytics
- › Peer collaboration
- › Analyst engagement
- › Consulting
- › Events

Forrester's research and insights are tailored to your role and critical business initiatives.

ROLES WE SERVE

Marketing & Strategy Professionals

CMO

B2B Marketing

B2C Marketing

Customer Experience

Customer Insights

› **eBusiness & Channel Strategy**

Technology Management Professionals

CIO

Application Development & Delivery

Enterprise Architecture

Infrastructure & Operations

Security & Risk

Sourcing & Vendor

Management

Technology Industry Professionals

Analyst Relations

CLIENT SUPPORT

For information on hard-copy or electronic reprints, please contact Client Support at +1 866-367-7378, +1 617-613-5730, or clientsupport@forrester.com. We offer quantity discounts and special pricing for academic and nonprofit institutions.