



# How to Seize Digitization Opportunities With Digital Business Models and New Partnerships

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## Introduction

In recent years, many enterprises in Germany, especially those in industry, have already rolled out various measures to automate their production, to digitize development processes and to improve inter-departmental collaboration. In doing so, they have created the basis for further digitization initiatives.

Yet in IDC's view, optimizing internal value creation is just the first step towards tapping the full potential unlocked by digitization, achieved in particular by implementing new digital business models driven by the bold use of information technologies.

IDC is convinced that all organizations, regardless of industry and size, must address this development if they are to secure long-term success. Managers are therefore called upon to make intrepid, future-focused decisions and inspire their enterprises to join them on this digital journey. This is the only way to make the most of new opportunities.

This white paper offers you a factual analysis and recommendations based on a survey of more than 200 enterprises in Germany conducted in July 2018. It is designed to supply you with ideas and best practices on how to use digitization to take your enterprise's business model to the next level.

## Enterprises need to push ahead with digital business models and new ecosystem partnerships to stay competitive

Most enterprises in Germany are familiar with digitization. For several years now, around three-quarters of the organizations surveyed having been pushing ahead with improving internal workflows via top floor ERP, PLM and inventory control systems or a high level of shop floor automation. As a result, many enterprises have achieved remarkable efficiency gains in recent years.

However, it would be fatal to persist in focusing on this inwardly directed digitization, while ignoring the remaining vast spectrum of possibilities. The ever-growing mass of digitized information, plants, products, and processes automate business and enable new digital business models and partnerships. The boundaries between an enterprise's internal workflows and their customers, partners, and suppliers are blurring increasingly. Information becomes an economic asset and data a competitive advantage.

The connected car is a good example of this: on the one hand, manufacturers can offer their customers new, more personalized services based on vehicle data. On the other, their connected products let automakers take advantage of a network of (external) companies such as insurance firms, car park operators and garages that want to share the generated information and thus offer customers additional benefits. The actual product therefore becomes a platform for the ecosystem. Collaboration in networks like this will come to represent a core competence in IDC's view.

## Definitions

### **Business model:**

In brief, the term business model outlines in detail how enterprises create value. It defines who their customers and stakeholders are, how to acquire them, how value is created and delivered, and how the enterprise profits, while cost and revenue structures determine profitability. Business models have many dimensions that need to be carefully orchestrated. Within the context of digital transformation, existing business models will be redefined through the use of information technology. Technologies like the cloud, mobile, big data & analytics, social, IoT, AI and robotics let enterprises redirect their value chains, replace or enhance physical with digital products, or create new data-based platform business models, in which they assume the role of broker. In this way, they can change their value proposition to customers and new digital business models emerge.

### **Ecosystem:**

An enterprise's external ecosystem consists of partners, suppliers, customers, competitors, markets, authorities, etc. Digitization connects enterprises so closely with their ecosystem that internal and external boundaries are blurring increasingly.



Figure 1

So far, enterprises rarely use digitization to develop technology and data-based products



The percentages indicate the proportion of enterprises that use information technology for the described purpose  
 N = 201; multiple answers possible

Source: IDC, 2018

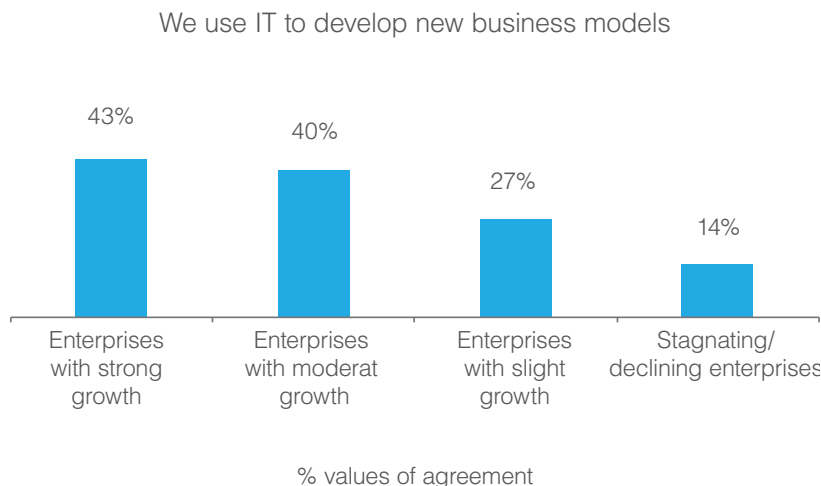
However, so far many enterprises have trouble using information technology to create product innovations and tap new sources of revenue. Only around a third of the enterprises interviewed are going in the direction of “digital business models” (see Figure 1). However, the survey findings clearly show that the surveyed enterprises with the top revenue growth are also ahead on implementing digital business models. Enterprises that don’t jump on board will find it difficult to stay competitive in the medium term.

However, compared to other IDC surveys in recent years, the subject of digitization in general has made substantial gains in decision-makers’ priorities. So it is up to them to adopt the right steps and decisions to put in place new digital business models in the upcoming months — and more importantly, to get on it now without any more delay.



**Digitization is the second most important priority** for the surveyed enterprises in the next two years — only increasing revenue is more important.

Figure 2



Source: IDC, 2018



*"We're in the process of developing from a product manufacturer to becoming a networked, digital solution provider, because it's vital for survival in this industry."*

**Michael Stritzelberger,**  
Executive Vice President  
Central Research &  
Development, Kärcher

## How manufacturers transform business models with data-based services

Manufacturers of products, machinery, or plants in particular should tackle digitization to develop their existing business models through digital services based on connected product data or to create a new data-based platform business model like a marketplace, in which they play the part of a broker. Stronger customer centricity, longer term collaboration, and, of course, new sources of revenue are the reward. These are promising aspects in days of high competitive pressure and slimmer margins in traditional business. In the future, the most successful manufacturers will be those that can offer their customers bespoke products with relevant additional benefits.

Around half of manufacturing enterprises have already set out along this path, but with varying levels of intensity:

- ❗ **37% offer customers data-based services such as automated spare parts provisioning, availability services, and predictive maintenance.**
- ❗ **One in ten manufacturers go a step further and offer a product or its performance "as a service".**  
Among the pioneers of this trend was Rolls Royce with its jet engines as a service\*, in which only hours in the air are billed. Driven by the Internet of Things, many other prominent examples like that of Kaeser\*\* (compressed air) and Still (fork-lift trucks)\*\*\* were to follow. The radical customer-centricity of their service innovations has shaken up the market.
- ❗ **However, the share in revenue accounted for by data-based services currently lies at only 14% of the surveyed manufacturers.**

But this is set to rise substantially in years to come, as can also be assumed from what the interviewed manufacturers have in mind (Figure 3). The servitization trend is undoubtedly here to stay.

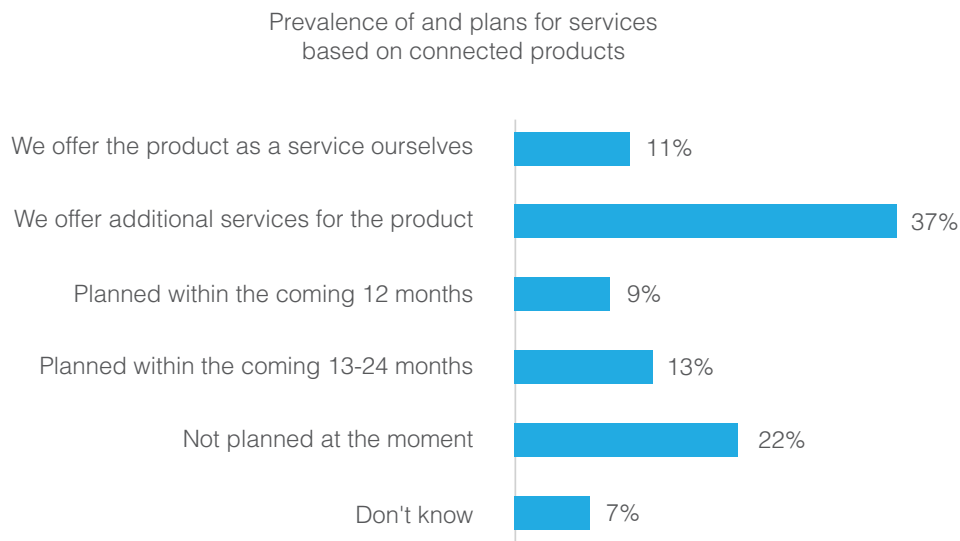
\* <https://bit.ly/2xPOU7F>

\*\* <https://bit.ly/2O9h6wp>

\*\*\* <https://bit.ly/2lfileFW>

## Figure 3

### Development of business models driven by data-based services



Q.: Does your enterprise use the data generated by products/machinery/plant to offer customers services?

N = 97, only interviewees from the manufacturing sector, deviation from 100% due to rounding

Source: IDC, 2018

Nevertheless, the road to a digital business model is strewn with challenges, including fitting products, machinery, and plants with sensors connecting them and making them smart. They also have to assess what added value the data holds for customers and what services can be built on them. Ultimately, the transition from a product manufacturer to solution provider affects the entire enterprise.

## Best practices for digital business models: How to make transformation work

Despite the challenges, there is no way of getting around the digital transformation of your business model:

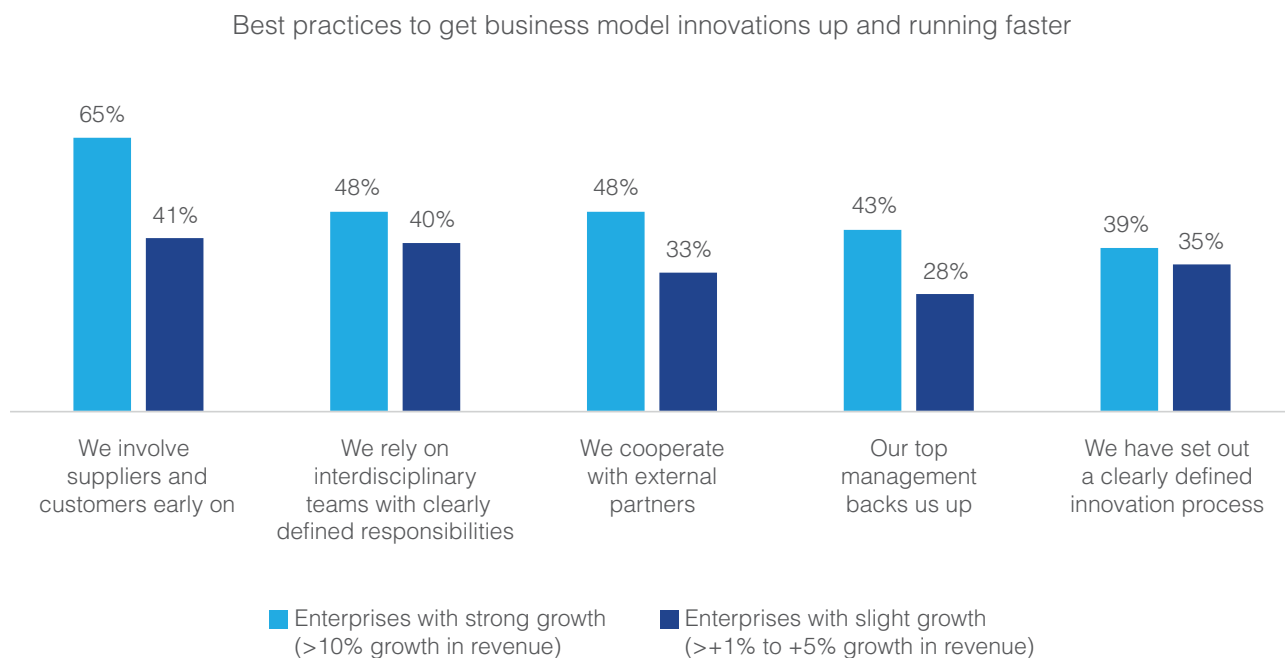
- ❗ **39% of the interviewed decision-makers are convinced that within five years their existing business concept will no longer generate any growth**
- ❗ **63% assume that within 5 years their business model will largely hinge on data-based services**
- ❗ **70% regard a digital business model as crucial to future business success.**

So just "carrying on" with business as usual will not do. This is something the 22% of manufacturers that so far haven't even planned to offer customers new data-based services should take to heart (see Figure 3).

Fast-growing enterprises regard the early involvement of customers and partners as vital to harvest new ideas and quickly validate new products. This makes a lot of sense because the success of a new business model hinges on whether the customer's needs are satisfied and whether the supplier network can meet the new requirements.

Figure 4

Trailblazers involve customers and partners in their activities at an early stage



Q.: What does your enterprise do to get business model innovations up and running faster?

N = 23 (strongly growing enterprises; >10% revenue growth in the past 12 months), N = 97 (enterprises with moderate growth; +1% to +5% revenue growth in the past 12 months), multiple answers possible; abbreviated figure.

Source: IDC, 2018

The comparison of fast and slow-growing enterprises also shows that organizations benefit from inter-departmental collaboration and the incorporation of external know-how. Supporting top management is a core success factor. These are key activities for fostering ideas and stimuli, firmly establishing transformation and ensuring acceptance in the workforce. Decision-makers should therefore ensure that these best practices are also used in their enterprises.

"Customer benefit is the be all and end all, and it is crucial to the development of smart products and new business models."

**ANDREAS MÜLLER, CIO AND CDO, FISCHERWERKE**

"Our digitization success factors include a committed management, in-house digital expertise, and a focus on added value for the customer."

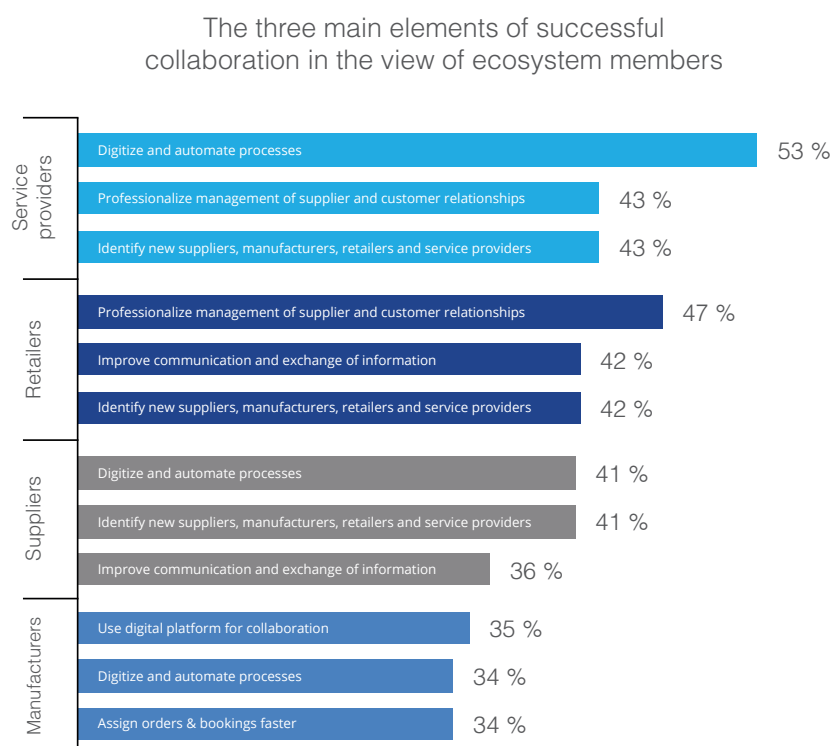
**MICHAEL STRITZELBERGER, EXECUTIVE VICE PRESIDENT CENTRAL RESEARCH & DEVELOPMENT, KÄRCHER**

## How enterprises can take collaboration with partners and customers to the next level

The growing importance of interaction with the external ecosystem for enterprises is a given. Around two-thirds of the interviewees see their business success as jeopardized in five years if collaboration with their network is not improved. Half also expect major changes in their supplier and customer base by 2023. So the question is, what must enterprises do to improve collaboration with the ecosystem and how to seize the opportunities of data-based value creation?

Figure 5

Enterprises in the ecosystem share a common desire for more efficiency and flexibility through digital processes and platforms




Q.: Which are the three most important factors for improving successful collaboration with external partners and customers in the upcoming two years?  
N = 97 (manufacturers), N = 55 (retailers), N = 19 (suppliers); N = 30 (service providers), selection of the three most important criteria, figure abbreviated

Source: IDC, 2018



**64%** believe that their business success in five years' time will hinge on efficient collaboration with their ecosystem.





” “The benefits of a platform include easy communication with our suppliers, exchanging information, and the integration of existing systems.”

**ANDREAS MÜLLER, CIO AND CDO, FISCHERWERKE**

” “If possible, we want our partners, suppliers, and customers to join us on a platform like a marketplace. For us, this means taking the next step in simultaneous engineering.”

**Matthias Steinmann, Senior Director Central Research & Development, Kärcher**

Naturally, every organization has its own ideas of what successful collaboration looks like. However, an overall consensus exists on how interaction must develop in the coming years. All interviewees share a common desire for greater efficiency along the value chain and higher flexibility by extending their partner network.

Most are also agreed on how to achieve this. All partners deem process digitization and automation and the use of digital platforms as the key solution approaches. The consensus among market players is likely also prompted by the fear of being discarded by their customer and supplier base if they don't go with digitization.

All kinds of industrial enterprises therefore aim to make greater use of digital tools and platforms to exchange product data, designs, orders and delivery dates — if possible in real time. However, enterprises also need a clearly defined strategy to weigh up the new possibilities and integrate their current B2B relationships into ecosystems.

Besides traditional partnerships such as joint ventures, new forms of ecosystem such as innovation and industrial data platforms are emerging in the wake of increasing digitization and automation. Online marketplaces are also more relevant than ever.

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Enterprises expect to generate **41%** more revenue via online marketplaces in the coming two years.

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## Online marketplaces bring together suppliers, manufacturers, and service providers

Online marketplaces are online portals or platforms through which enterprises meet to conduct business activities efficiently. While trading in the consumer environment has exploded in recent years with ecommerce platforms such as Amazon, this development has still to hit the B2B sector.

Nevertheless, some interesting examples can also be noted here:

- merQbiz by Voith\* (online trading platform for waste paper).
- RIO by MAN\*\* (cloud-based digital platform for the transport and logistics market).
- XOM Materials\*\*\* (independent marketplace for the online trading of steel, other metals, and industrial products),

The interviewed industrial enterprises report that they currently generate an average of 20% of their revenue via online marketplaces. The trend is rising sharply: over the next two years, online share of revenue is due to grow 41% to reach 28%.

Enterprises have two options. They can use an external service or develop their own online marketplace. In both cases, it is vital to attract as high a number of market players as possible. For most, using existing digital marketplaces

\* <http://bit.ly/2xTO0XV>

\*\* <http://bit.ly/2MZnZvP>

\*\*\* <http://bit.ly/2R1Q0pN>

is doable. The survey findings also back this up: 23% of manufacturers, suppliers, and service providers use an external service, while only 10% run their own platforms.

Regardless of the option selected, the interviewed managers associate online marketplaces with several benefits, in particular including extending their supplier and customer base. Suppliers and service providers can make their services accessible to a far broader number of interested parties than through traditional distribution channels. In turn, manufacturers enjoy a much wider range of products. Smaller enterprises in particular are given the chance to increase their reach via online marketplaces and enter into new business relationships.

Online marketplaces let all stakeholders enjoy a high degree of transparency through product and transaction ratings, for instance. This can inspire trust between organizations hitherto unknown to each other and stimulate new business. Efficient communication, establishing standards, and integrated transaction handling via the online marketplace are also perceived as important benefits that can substantially ease collaboration between members of the ecosystem.

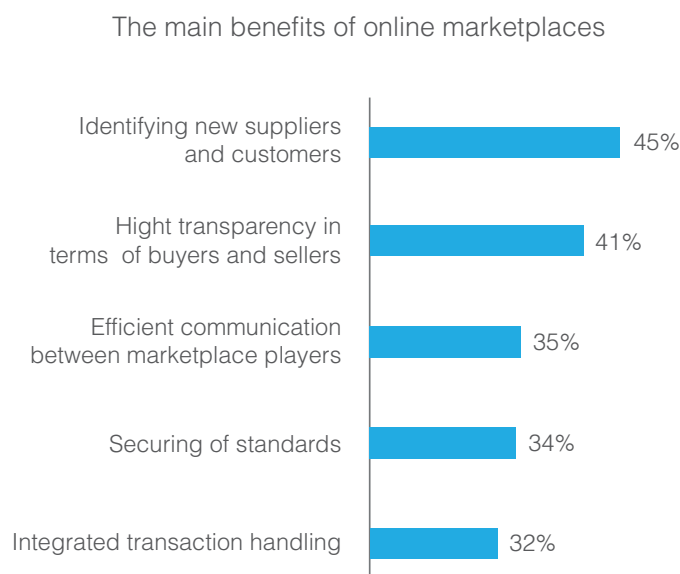


*“Blurring internal and external boundaries is important in digitization. Orders from external sources have to be fed into and processed by in-house digital systems, and so we have to be well connected for that.”*

**Michael Stritzelberger,**  
Executive Vice President  
Central Research &  
Development, Kärcher

**Figure 6**

Online marketplaces let enterprises extend their supplier and customer base and optimize collaboration in the ecosystem



Q.: What do you think the main benefits of online marketplaces are/would be for your enterprise?

N = 201; multiple answers possible, figure abbreviated

Source: IDC, 2018

More than half the interviewed industry decision-makers are clear on one thing: suppliers, service providers, manufacturers, and retailers that are not in an online marketplace within the next five years will be unable to keep up with competitors. However, some effort is needed on the part of enterprises. The major challenges of using online marketplaces in the interviewees' opinion are the necessary training for employees, integrating orders into existing IT systems, and changing over current processes. Enterprises need to get themselves on this track in-house if they want to make the most of the added value offered by online marketplaces.



## CONCLUSIONS AND OUTLOOK

Digitization holds far more in store than just an improved internal value creation process. Its main added value focuses on the implementation of new digital business models such as data-based products and the opportunities unlocked by innovative collaboration in ecosystems. The resulting changes are as fundamental as they are promising, but the pace is very fast.

In future, product, machinery, and plant manufacturers will have to concentrate more on the use, provisioning, and added value of their products, as a rising number of customers would prefer to use, rather than own products. So there is a need for data-based digital services, products, and additional benefits. The majority, though regrettably not all, industrial companies in Germany have realized this.

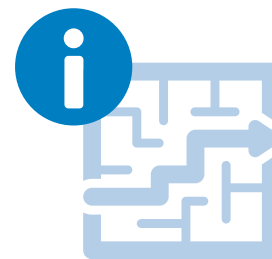
Innovative business models will however only yield the hoped-for success if they satisfy customer needs and suppliers can meet the new requirements. More than ever, the focus is on customer benefits and customer experience. The vast majority of interviewed decision-makers therefore realize that their future business success hinges on more efficient and flexible collaboration in the ecosystem. Online marketplaces also address these requirements, so their relevance will continue to increase in the coming years.

Future ecosystems will radically change the traditional B2B processes of industrial enterprises at the supply and procurement, distribution, and logistics levels. The next generation of B2B and B2B2C processes is already in the offing. IDC expects that by 2025, 70%–80% of industrial processes will be fully automated and no longer require any human hand at all. This development will affect the entire ecosystem consisting of suppliers, logistics partners, engineering providers, the distribution network, and all other stakeholders.

All enterprises in Germany should therefore focus their digitization initiatives more strongly on digital business models and ecosystems. Tomorrow's trailblazers will not be the ones with the highest level of in-house automation, but those that implement digital business concepts and involve ecosystem members as equal partners in their value creation chain.



## Recommendations



### 1. **Extend the focus of your digitization initiatives to include new business models and ecosystem partnerships**

In many industrial enterprises, digitization projects are aimed solely at optimizing internal workflows. Don't be content to stop there. Seize opportunities to extend your business success with digital business models and innovative collaboration in the ecosystem.

### 2. **Develop data-based services that offer your customers added value**

The huge quantity and diversity of machinery and product data makes it difficult for enterprises to develop the right online services. Always focus on the added value for your customers and drop ideas if a service does not help to solve your customer's problem.

### 3. **Involve customers, suppliers and partners in your innovation process early on**

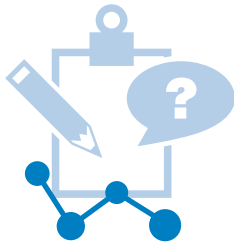
The success of product, service and business model innovations hinges on customer needs and your suppliers' services. So include them in your deliberations at an early stage to benefit from their input and validate ideas. Generally, a good way to do this is to form an innovation board with your main customers and suppliers.

### 4. **Look upon online marketplaces not only as another sales channel, but also as a platform for more efficient collaboration with the ecosystem**

Online marketplaces address enterprises' demand for greater flexibility and efficiency in terms of interaction with suppliers and customers. Find out which marketplaces are most relevant for your enterprise in respect of the marketplace players and the costs entailed. Use platforms to extend your business and handle transactions efficiently.

### 5. **Adjust internal workflows and responsibilities in your enterprise**

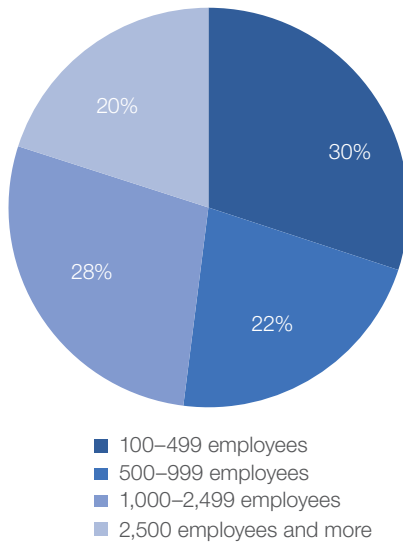
Developing business models always goes hand in hand with organizational changes. In particular, adjusting processes, training personnel, and IT system integration are a must when offering data-based services and using online marketplaces. Also involve your employees in changes at an early stage so you can take their ideas into account.



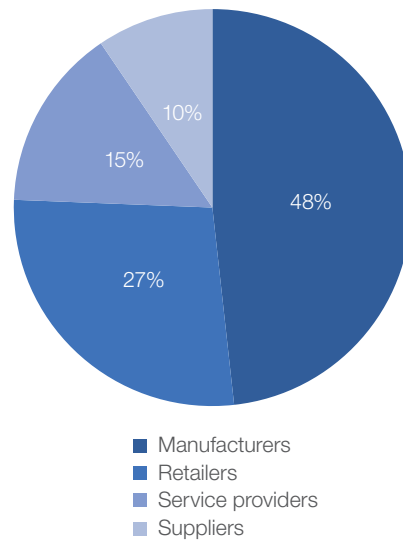
## METHODOLOGY

The findings of this white paper are based on a survey of more than 200 managers conducted in Germany in July 2018. The random sample is spread as follows in terms of enterprise size, business focus, industries, and specialized fields:

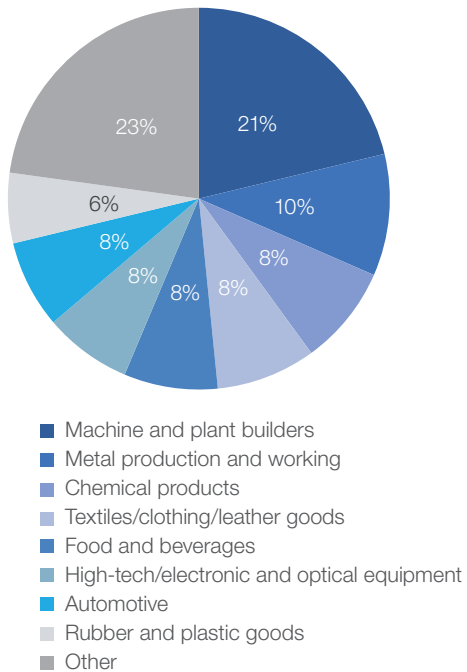
Employees



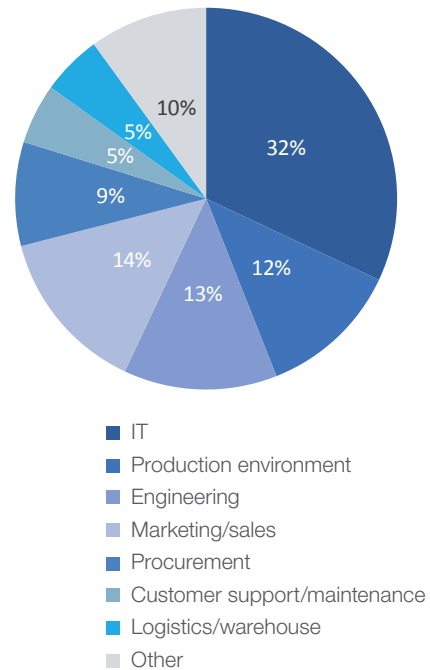
Fields of activity



Industries



Departments



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