

UMEÅ UNIVERSITY

MANAGING THE DIGITAL ENTERPRISE

Individual Assignment 2

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1 Digital Transformation in Incumbent Companies

Digitalization is a defining force in today's business landscape, reshaping company's operations and competitive strategies across various industries. They are changing constantly and rapidly to adapt to shifting market conditions and evolving circumstances. This transformation has also an impact on incumbent companies. [5, 9]

Incumbent company

Incumbent company refers to a well-established entity that has a significant presence and history within a particular industry or market. These companies have been in operation for a long period, often for many years or decades, and have typically achieved a level of market leadership, brand recognition, and customer base. [7, 8]

The adaptation of incumbent companies to the digital progress is often a necessity to remain relevant and competitive in a world where technology and customer expectations are constantly changing. [7, 8]

The digital transformation alters whole businesses and their strategies by focussing more on the customer. Incumbent companies are particularly facing challenges in changing and adapting quickly, because their organizational structures and strategies have already been executed without change for many years. [5]

Three key factors related to the digitalization of the business and technology environments around incumbent companies and their motivations for engaging in digital transformation are described below.

1.1 Customer Expectations

Changing customer expectations due to digitalization are an aspect of the evolving business landscape. As technology advances, consumers have come to expect seamless and personalized experiences when interacting with businesses, including e-commerce, mobile apps, personal recommendations or customer service. Consumers demand easy access, instant responses, and tailored solutions. [1, 4, 5, 7, 8]

In the following are listed some aspects of the change in customer expectations due to digitalization:

- **Personalization and Customization:**

Digitalization enables businesses to collect and analyse data about their customers. As a result, customers expect a more personalized and tailored experience. They even expect that businesses will use their data to provide recommendations, promotions, and content that align with their preferences and behaviours. [4, 5, 7, 8]

One example for a company that has a tight connection with their customers wishes is the active wear brand Popflex¹. They redesign their clothes with the feedback and wishes of their customers, to make it fit on different body types and be as practical as possible.

- **Convenience and Accessibility:**

The convenience of digital channels, such as e-commerce websites, mobile apps, and online services, are the new standard. Customers expect quick and easy access to products, services, and information. [5, 8]

- **Customer Support and Real-Time Interactions:**

The internet has enabled real-time communication, which lead customers to expect quick responses and solutions. This includes not only customer support but also the way businesses handle transactions and other processes. Social media platforms and instant messaging services have created an expectation of immediate communication. [4, 7, 8]

- **Transparency and Trust:**

Digitalization has increased the transparency of company practices, making it easier for customers to access information about the products, prices and processes of a company. Customers now expect honesty and integrity from businesses. Any discrepancy between a company's digital image and its real-world actions can lead to a loss of trust. Customers even expect businesses to show a commitment to sustainability and social responsibility. [3]

- **User-Friendly Design and Social Media Marketing:**

The design and usability of digital interfaces and the digital marketing on social media have become crucial. Customers expect intuitive, user-friendly websites and applications and suitable social media marketing, including product placements, promotions or crowd sourcing. A poor user experience can drive customers away, even if the product or service is valuable. [4] In addition to this, customers rely on reviews and forums and social proof when making purchasing decisions. They might even expect companies to provide a platform for reviews and actively respond to feedback. [4]

- **Security and Privacy:**

With the increased sharing and collecting of data, customers are more concerned about their privacy and data security. They expect businesses to take robust measures to protect their information and to be secure against cyber attacks. [5, 6]

Incumbent companies must adapt to these changing expectations to remain competitive. Traditional businesses are forced to establish an online presence and enhance their digital channels to engage with customers effectively. Companies that fail to meet these expectations risk losing relevance on the market. [4, 5, 7, 8]

¹The brand can be found at <https://www.popflexactive.com/> and the designer of the clothes is really strong at social media marketing, for example at <https://www.youtube.com/@blogilates>.

1.2 Data-Driven Decision-Making

The digital environment enables companies the option to collect big amounts of data that can be analysed for insights, predictions, and informed decision-making. Companies that effectively use data analytics can have a competitive advantage by understanding customer behaviour, optimizing their operations and predicting trends. [2]

- ****Vast Data Generation****: With the proliferation of digital channels, businesses now generate vast amounts of data. These data sources include customer interactions, online transactions, social media activity, and more. The sheer volume of data has created an unprecedented opportunity for organizations to gain insights into customer behavior, market trends, and operational efficiencies.
- ****Predictive Analytics****: Digitalization enables companies to leverage advanced analytics and predictive modeling to anticipate market trends and customer preferences. By analyzing historical data and real-time inputs, businesses can make informed predictions, enabling them to proactively meet customer demands and stay ahead of the competition.
- ****Personalization and Targeting****: Digitalization allows for highly personalized and targeted marketing and product recommendations. Companies can use customer data to tailor their offerings to individual preferences, increasing the likelihood of customer engagement and loyalty. This level of personalization enhances the customer experience and ultimately drives sales.
- ****Operational Efficiency****: Data-driven decision-making extends beyond customer-facing activities. Businesses can optimize their internal operations by analyzing data to identify bottlenecks, inefficiencies, and areas for improvement. This results in cost savings and increased productivity.
- ****Real-Time Insights****: The digitalized market demands real-time decision-making. Companies can access and analyze data in real-time, allowing them to respond quickly to changing market conditions. This agility is critical for adapting to dynamic customer preferences and emerging competitive threats.
- ****Competitive Advantage****: Organizations that effectively harness data-driven decision-making gain a significant competitive advantage. They can make informed decisions based on concrete evidence, leading to more successful product launches, targeted marketing campaigns, and optimized supply chains.
- ****Market Responsiveness****: The market is changing rapidly, driven by digitalization and evolving consumer behavior. Data-driven decision-making equips companies to respond to these changes more effectively. They can quickly identify emerging trends and adapt their strategies to meet new market demands.

- ****Ethical Considerations****: With increased data usage, there are ethical considerations related to privacy and data security. Companies must navigate these issues carefully to build and maintain trust with customers.

In this digitalized market, data-driven decision-making is not just a valuable tool; it's a strategic imperative for businesses looking to thrive in an environment characterized by constant change and intense competition.

Impact: Incumbent companies may have large datasets accumulated over the years. To unlock the potential of this data, they need to invest in data analytics tools and expertise. Data-driven decision-making enables them to enhance efficiency, personalize customer experiences, and uncover new revenue opportunities.

1.3 New Technologies and Competitors

TODO

Motivation: Startups and tech-native companies often leverage cutting-edge technologies to disrupt established industries. Innovations like artificial intelligence, blockchain, Internet of Things (IoT), and data analytics are reshaping industries and enabling new business models.

Impact: Incumbent companies face the risk of being left behind by competitors who leverage these technologies for cost-efficiency, improved customer experiences, or entirely new offerings. To remain relevant and competitive, they must adopt digital strategies, embrace innovation, and incorporate these emerging technologies into their operations.

In summary, changing consumer expectations, competitive disruption driven by emerging technologies, and the potential of data-driven decision-making motivate incumbent companies to engage in digital transformation. Adapting to these factors is crucial for their survival and long-term success in the digital age. Companies that resist these changes risk becoming obsolete, losing market share, and missing out on opportunities for growth and innovation.

2 Key challenges for established companies

3 Strategies for overcoming challenges

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