DIGITAL TRANSFORMATION REVIEW

N° 02 JANUARY 2012

Talking 'bout a revolution

• Burberry's digital transformation by Angela Ahrendts • Findings on how companies are succeeding with digital transformations by Capgemini Consulting and the MIT Center for Digital Business • The rise of social CRM by Paul Greenberg and Esteban Kolsky • Building a world leader through digital transformation by Manish Choksi, Asian Paints • The Third Industrial Revolution has started by Jeremy Rifkin, Foundation on Economic Trends

Capgemini Consulting

Editorial

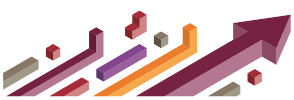
Digital and Transformation: leaders are paying attention
By Capgemini Consulting's Editorial Board

page 4

Strategy

Burberry's digital transformation
Interview with Angela Ahrendts, CEO of Burberry

page 6



Close-up

Talking 'bout a revolution
MIT Center for Digital Business and Capgemini Consulting findings on how companies are succeeding with digital transformations

page 17

Vision

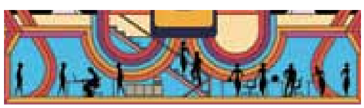
The rise of social CRM – or capturing the customer conversation
Interview with Paul Greenberg, Managing Principal of The 56 Group, LLC, and Esteban Kolsky, Founder of ThinkJar

page 36

Telescope

Building a world leader through digital transformation
Interview with Manish Choksi, Head of Strategy and Chief Information Officer of Asian Paints, India's leading decorative coatings manufacturer

page 42



Key figures

pages 16 and 35

Special guest

The Third Industrial Revolution has started
Interview with Jeremy Rifkin, President of the Foundation on Economic Trends, Advisor to the European Union and Founder of the Third Industrial Revolution Global CEO Business Roundtable

page 48

DIGITAL TRANSFORMATION REVIEW

Digital and Transformation: leaders are paying attention

By Capgemini Consulting's Editorial Board

This second edition of Capgemini Consulting's Digital Transformation Review unveils the preliminary results of one of the first global studies into digital transformation. As the first outcome of our three years with the MIT's Center for Digital Business, the study aims to assess how companies are using digital technologies to transform their businesses. Phase 1 is an exploratory investigation involving 157 executive-level interviews in 50 companies in 15 countries. We conducted in-depth interviews to qualitatively explore the nature of the digital transformation phenomenon with real executives facing real challenges.

Two-thirds of the executives in our sample spoke of the pressures they feel from competitors and customers to speed up their transformation programs. However, only a third of the companies are truly reshaping their businesses through digital transformations. Other companies gain some value from transforming parts of their businesses, but only a few are fulfilling their true potential.

An important underlying cause is that many are still working to understand whether and how to change. Benefiting from transformation typically requires changes in processes or decision-making that span traditional organizational or functional structures – in other words, transformation requires a vision that goes beyond existing silos. This must be a top-down effort.

One company deploying digital with great success is Burberry, under the visionary leadership of Angela Ahrendts. As befits its role as a maker of fashion, the iconic brand is setting trends in digital transformation. Since becoming its CEO six years ago, Angela Ahrendts has turned the 156-year-old British company into a full-on digital company, spending 70%

of its advertising budget on digital channels. This novel way of selling luxury has propelled Burberry onto the podium as a leading global brand, with a marketing strategy that manages to be inclusive and exclusive at the same time. True digital leadership.

One of the emerging market companies we studied is Asian Paints, a $1.6 billion Indian paint manufacturer and services company. The firm's Head of Strategy as well as its Chief Information Officer, Manish Choksi, describes the ambitious step-by-step journey to digital transformation begun by the company over a decade ago. Asian Paints is now building social media collaboration with its customers, and is well on track to achieve its ambition of becoming one of the top global companies in this fast-growing sector.

Social networks such as Facebook, Twitter, YouTube, Google+, LinkedIn and Wikipedia are a key driver of digital transformation. The most dynamic companies use social channels to build closer and collaborative relationships with their customers. We interview Paul Greenberg and Esteban Kolsky, two of the leading global commentators on the links between social media and traditional customer relationship management (CRM) tools.

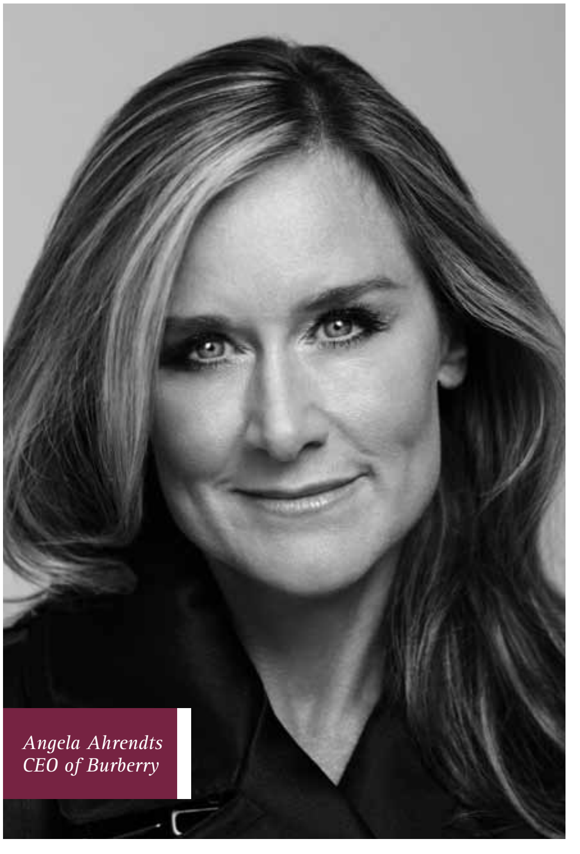
Finally, we take a longer-term perspective on digital transformation in a stimulating conversation with Jeremy Rifkin, author of the bestselling, "The Third Industrial Revolution: How Lateral Power is Transforming Energy, the Economy and the World". Jeremy Rifkin explains how the merging of digital communications and sustainable energy will guarantee the world's long-term energy security, galvanizing the economy at the same time.

We wish you a thought-provoking and enjoyable read.

Burberry's digital transformation

Since her arrival as Chief Executive Officer of Burberry in 2006, Angela Ahrendts has been acclaimed for her highly successful turnaround strategy. In just a few years, together with Chief Creative Officer Christopher Bailey and their senior team, she has established the 156-year-old British company as probably the most truly digital luxury brand in the world. From in-store technology to social media, Burberry has been a forerunner in adopting digital technologies to connect its channels, creating a new, rich brand experience for consumers.

Angela Ahrendts explains why and how she introduced digital transformation into Britain's iconic luxury brand.



Angela Ahrendts
CEO of Burberry

Capgemini Consulting: Can you describe the company you took over in 2006 and how you set about convincing the teams that a move to digital was the way forward?

Angela Ahrendts: Back in 2006, Burberry was grossly underperforming. While the overall sector was growing at around 12-13% a year, our rate was only 1-2%. Burberry was not keeping pace with the rapid development in the luxury goods market, neither in terms of innovation nor in terms of products and services. We were up against tough competition from much larger French and Italian peers, with multiple brands and many times our own revenue and profit.

As a management team, we began by asking ourselves a fundamental question: 'What is our vision?' And, from very early on, we decided we were going to be a design, marketing and retail-led organization. This was our high-level vision. From there we began to develop our five-year strategy, asking: What do we have that our peers don't - other than the fact that we are much smaller, a standalone company and with little cash to invest? When I started at Burberry our annual revenue was £740 million, with a 10-11% profit margin. We were opening only a handful of stores a year and couldn't afford to do much more. But we did have a number of key differentiators in the luxury sector we could exploit.

First, we're British. There were lots of big French brands, big Italian brands, big US brands. But only one big British brand.

Second, we were born from a coat. Others were born from luggage, shoes, saddlery. But only we were born from a coat. Outerwear was just 20% of our business back then, and we saw a huge opportunity to exploit that category further.

Finally, our peers were all targeting 'ladies who lunch' and focusing mainly on the baby boomers. There was no way we could meet them head-on with their much larger advertising budgets. So we decided to target our marketing spending on the millennial consumer, in their 20s, and with a clear focus on emerging economies, where the average high net worth customer is typically 15 years younger. And we communicated and engaged with this younger customer using their mother tongue: digital, which would also give us the greatest reach for our limited marketing budget. That's when the digital transformation started for Burberry.

Burberry's digital transformation

Digital front end, back end and in the stores

CC: From our recent research with the MIT, we found few companies that had embraced digital technology effectively to truly transform their organization. You seem to be one of them. How did you come up with this strategy?

A.A.: Digital is an extremely broad concept with many dimensions.

Let's start at the front end of our business, with marketing. We decided right from the start to use digital to target our consumers. We hired a young, dynamic marketing team who in essence was the millennial customer. This is, in part, why we've been at the forefront in marketing innovation in the luxury sector. Whether that's launching our latest fragrance on Facebook, or developing the 'Tweetwalk' with Twitter, or being amongst the first brands on Google+.

Then, there was the back end: one of our key strategies from day one was operational excellence. We wanted to be as admired and as respected for the back end of our business as for the front end. When I started, we had just embarked on a business-wide rollout of SAP. We had to put this in place, although it was expensive and arduous for the first couple of years. In 2010, the last big country to come on board was China.

So we had a clear front end marketing strategy and the back end infrastructure was under development. At this stage, we began opening 20 to 30 new stores a year and asked ourselves: how can we use digital innovation to engage our customers more effectively in our physical real estate, as well as online? We were doing all these innovative things in digital marketing – livestreaming our runway shows, partnering with social media players, relaunching Burberry.com - but how could we link this to the customer in our stores? This is where the 'retail theatre' concept came in to play.

We began to partner with technology companies to make the 'retail theatre' concept real, enabling us to broadcast our multifaceted content to our stores globally, and to create a modern and pure brand environment. We use the technology to bring the brand to life in our stores: from the music to the rich video content on giant internal and external screens to the iPads carried by all our sales associates that give access to the full global collection, regardless of what is available in-store. It also enables us to share the energy and excitement of key brand moments with our customers around the world. For example, by inviting them to watch our runway shows live in stores and enabling them to shop the collection on iPads immediately afterwards, for delivery in 6-8 weeks. In this way we have developed our stores to showcase our digital innovations.

The real challenge: connecting the channels

Then came a new challenge in our digital transformation: connecting all platforms and new mediums. We had relaunched our e-commerce platform, we were doing some great things on Twitter and Facebook, and we wanted to invest in new technologies from multiple companies, but none of it was connected. All this technology needed to be linked up so that we could have a single customer view that we could use across channels, mediums and platforms.

We began sharing the vision of our ecosystem with our technology partners, including Salesforce.com. We told them: Burberry is global, dynamic and has a clear vision. We have an amazing CTO and an IT team that's nimble and fast. So our proposal was: 'Let us be your R&D. Let's experiment together.'

We asked them to help us join up all our existing platforms and to layer on new communication and analytic tools. Our vision was that any person, any constituency, needing to interact with Burberry would come on to Burberry.com and enjoy exactly the same experience as an in-store customer. We wanted them to come into our world – Burberry World – and be able to visit all the different parts of the business as they would do in our HQ, just like customers experience every facet of the brand on Burberry.com. Everything should be as connected digitally as it was in reality.

When I first met with Marc Benioff at Salesforce.com, he understood this immediately. He told me: 'You want to create a social enterprise'. And so we decided at that first meeting to deploy his CRM modules across the entire business.

Burberry's digital transformation

A burning platform

CC: You seem to be keenly aware of technology. This is not intuitive in the world of fashion. Is it a result of your past experiences?

A.A.: My Chief Technology Officer asks me the same question every week! I think one explanation is that I'm not a traditional CEO. I am passionate, present, and very engaged with the company. I am very hands-on. My office door is always open. I get to listen to thousands of people every day through various channels.

Our Chief Creative Officer, Christopher Bailey, is also passionate about the possibilities of digital and we have built great teams across many departments, who work in partnership to come up with the most innovative ideas. I also think that having three teenage kids at home helps me to understand. I see them watching the best of YouTube in bed every night. They don't watch TV on weekends, they want YouTube on a big screen and they live on Facebook on their iPhones.

But it has also been about building a creative thinking culture. When we set out to build our strategy, we said that we didn't just want to be a great brand - we wanted to be a great company to work for, to empower our young, digitally native workforce. We tell the team constantly that the bigger we get, the closer we have to work and the more connected we have to be – and technology is a key connector.
So strategy has something to do with it too. We had to find our white space - to do something different from our peers. You might say we had a burning platform around which to unite the team.

The digital tsunami

CC: When you started talking about this new culture, how did you engage with your teams? Was it about communication or was it more about governance? Did you appoint a digital tzar?

A.A.: It was all three! It's interesting that you use the word 'tzar'. I took this job in part because of Christopher Bailey, now our Chief Creative Officer. We had worked together at Donna Karan many years ago. We knew and trusted each other. Six months after I arrived, we both took part in a global webcast where we told the teams that we were not about to write another novel, but an exciting new chapter - the most innovative in our history.
I introduced Christopher as the 'brand tzar' and told the team

that anything the consumer sees will go through his office. We said we would no longer do what was best for a person or what was best for a region. We would do what was best for the brand.

We talked about the 'digital tsunami' coming, and used this to drive home why and where we needed to focus, and how united and pure our global brand expression had to be. We explained how digital would dictate and drive many of the big decisions we needed to make. This depersonalized it and enabled us to make all the changes that were needed to enable Burberry to thrive in this new context. Digital has been a catalyst for everything in the company, and when we got everyone on board with this concept they were clamouring to become even more connected. So while the vision starts at the top, the groundswell is organic.
Digital is all about change and we told our teams early on to "fall in love with change, because we're going to need to evolve every year". We've created three new departments in the last two years: a social media department, a mobile department, an insight and analytics department. We recently brought in an SVP of Customer Insight. The company has not only embraced him, but hands go up from our people saying: "Great, can I go into that department?" I think that's different from most companies but a big part of the culture here - being fast, flexible, dynamic and open to change.

Governance also played a part and we put in place a dozen new governing councils. One of the most innovative was the creation of a strategic innovation council, chaired by Christopher. This council includes our youngest and most forward-thinking directors, and their remit is to dream. Through this council they are empowered and their dreams are heard. It is then the job of the council of more experienced, senior executives to put these dreams into action.

CC: It is often assumed that if you have a lot of generation Y employees it is so much easier to switch to digital because you have this groundswell of change happening from the bottom-up. Was this your experience?

A.A.: We're a 156-year-old company but a very young team. The average age in our marketing department is probably 25. They all understand this new language and this new world. You look at their screens and they are on Burberry Chat, Facebook, Twitter, multiple screens. This next generation speaks a new language: digital. They live

Burberry's digital transformation

digitally. So as a company, if you want to attract and retain the best of this next wave of talent, you need to speak their language.

But to be honest, it's not as simple as age. It's about having a young, open mind and being curious. It's also about letting people develop their own way of working. We're an Apple-based company, but some of our executives are more comfortable with their Blackberrys. That's fine. But we also have executives in their 60s who are often more digitally savvy than some of the young directors who work for them.

Technology drives the bus

CC: The three barriers we found in our research were skills, culture and IT. You seem to have successfully dealt with the first two. What about IT?

A.A.: I didn't work as closely with our CIO initially as he was driving our infrastructure building and he reported to our CFO. He was busy travelling around the world implementing SAP and evolving our service and support functions. So when we promoted him about a year ago to the new position of CTO and he began reporting to me, it was a new experience for both of us.

After our first, slightly tense, meeting, I told him I needed him to move from the back of the bus, where IT traditionally sits, to the front of the bus. I wasn't sure he realized how serious I was, so I texted him afterwards saying: "Have you seen the movie Speed?" Because he's not just at the front of the bus, he's driving the bus – and it's travelling fast.

Today's reality is that a marketing department can't execute without a strong technology partner. They couldn't make Tweetwalk happen without IT, or launch Body on Facebook without IT. If we're a digital marketing driven company, we need our CTO, in partnership with our Chief Creative Officer, to drive the bus. The message was quite blunt, but he and his team fully understood the opportunity and embraced it.

We have reorganized the IT team and created new roles. They now go to San Francisco with the marketing team a couple of times a year and work hand in hand with the Creative Media team. We are in the process of merging marketing, IT and creative media under one finance and operations executive with a team of project managers, in order to further accelerate our ability to seize these new opportunities. Finally, it's all starting to be connected!

Listen to the customers

CC: You are used to controlling every element of the brand. Social customers, however, enjoy a degree of control themselves. Has opening up to a more connected customer led to any cultural conflict?

A.A.: It hasn't up to now, but we are a very open and transparent company. We have more than 10 million fans on Facebook and Christopher talks to them every week. He shows them videos, takes them inside the design studio, counts down to the runway shows, and more. We are engaging with our customers and allowing them to come into our world. Of course, if someone is saying something negative we try to respond and resolve it. We have made a big investment in customer services teams and now, with the new Burberry.com website, you can click to call or click to chat with them, 365 days a year, 24/7 and in 14 languages. It will be 25 by the end of the year. And of course if you walk into a store you get the same great level of service.

Handbags and basic instinct

CC: Tell us a little about how your leap of faith based on instincts actually works in practice.

A.A.: Very early on we needed a couple of quick wins in order to gain the trust of the teams. One of the first things Christopher and I did was to put together

Burberry's digital transformation

a small collection of handbags for the 150th anniversary of the company. The Icon Collection was the opposite of what the teams wanted. They wanted the Burberry check and everything under £500. The Icon Collection was different: more innovative, younger, cooler, an impulse buy for the luxury customer. The first month's sales were stellar, all regions reordered and all of a sudden, everyone was asking: 'What's next, give me more'. We did this without any data, just on pure instinct.

We hire EQ and instinct over IQ every day. I don't know how else you drive innovation.

CC: This is counter-intuitive to what one reads on analytics and data. Is it specific to the fashion world, or to any company?

A.A.: It's not specific to our industry, but to all innovative companies. Apple is what it is today in part because of Steve Jobs' intuition. My view is that you need both. And we have both. Once we have a vision of what we want, then we confuse ourselves with the facts. We also talk a lot about getting the balance right. We talk a lot about the concept of balancing the left brain analytical and right brain creative.

Take our annual employee Icon awards, a sort of internal Academy Awards. Everyone votes for stellar performance across multiple categories. But the most coveted prize is the one Christopher and I hand out. It's called the art and commerce award and is given to the two people who have best exemplified this balance in achieving something exceptional. Our business is not all about innovation and creativity. We are a FTSE company and so achieving the perfect balance between creative and commercial is vital for us.

The mouse and the elephants

CC: Looking forward, what are the biggest challenges Burberry faces?

A.A.: It's less a challenge and more an opportunity. Consumer data will be the biggest differentiator in the next two to three years and not just in our sector. Whoever unlocks the reams of data that we're all collecting on consumers and then uses it strategically, will win. Soon when you get off a plane and it's pouring rain, you'll get a message saying: 'There's a Burberry store with new raincoats around the corner.' The technology is rapidly evolving to link it all together. And then you need the skills on top of the technology to optimise it fully.

CC: Does growth scare you? If tomorrow or the day after Burberry doubled in size, would that be a problem in terms of culture?

A.A.: We're not scared at all by growth; we are very excited by it. We were the underdog in the sector six years ago and no one was betting on us. We are still small but are now nudging into the top five. The mouse is now scaring the elephants a little bit.

The good news is that we have stayed true to our strategy throughout this time and we know precisely what we need to do to continue on this trajectory and where we need to invest across the business. In digital, we are ahead of most of our competitors because we have been on this journey for the last six years. We are beginning to blur the lines between physical stores and the digital experience. More people see the brand via digital than any other medium. In luxury, 60% of people shop online and pick it up in a store. So if the store doesn't look or feel the same as it does online, are you truly behaving like a great brand?

Presence of senior executives on social networking sites

2010 31%

2011 61%

Use of Twitter amongst business leaders and decision makers has almost doubled in a year.

LinkedIn's popularity among senior executives has risen

from 52% to 56%*

Number of senior executives with accounts on

Facebook has fallen to 71% from 81%*

Only **18%** of senior executives are present on all three social Networking sites

74% of C-level executives network in a professional community weekly

More than 30% of Linkedin members are senior executives

78% of senior executives think a social business strategy is important to the future success of their business.

*2011 compared with 2010
Source: CNBC survey of European senior executives 2011

Talking 'bout a revolution

Didier Bonnet & Patrick Ferraris, Capgemini Consulting;
George Westerman & Andrew Mc Afee, MIT

The times they are a-changin'

How can senior executives successfully lead digital transformation? In this report, we share the findings from a study of how 157 executives in 50 global companies manage – and benefit from – digital transformation.

Digital transformation: the use of technology to radically improve performance or reach of enterprises.

Digital transformation is a hot topic for companies across the globe. Executives in all industries use digital advances such as analytics, mobility, social media and smart embedded devices - and improve their use of traditional technologies such as ERP - to reshape customer relationships, internal processes, and value propositions. Other executives realize how quickly digital technology has disrupted media industries in the past decade and now know they need to pay attention to changes in their industries.

Two-thirds of the executives in our sample spoke of the pressures they feel from competitors and customers to speed up their digital transformations. One-third also mentioned pressure from employees. However, organizations adopt digitally driven changes at varying paces, and experience varying levels of success.

Only a third of the companies in our sample are truly reshaping their businesses through digital transformations.

Other companies gain some value from transforming parts of their businesses, but are only partially fulfilling their true potential through digital transformation. And some have not yet begun their digital transformation journeys. Many executives express healthy skepticism about how fast to proceed. After all, revolutions are a dime a dozen these days and leaders can legitimately wonder if commentators aren't being overly dramatic.

Are we overreacting?

The electric revolution – history's second industrial revolution – offers an interesting analogy. At the turn of the 20th century, electrical machinery began to replace steam in

The times they are a-changin'

powering factories and other systems. Many companies saw electrical machinery as a simple substitution or incremental improvement. They replaced their steam engines with electric dynamos, but left the rest of the organization the same. However, a few companies saw the potential of the dynamo to allow new ways of working. They redesigned their production lines to take advantage of the fact that electric engines could be placed virtually anywhere in the factory, rather than connected to the central drive train. They could design processes and buildings around the flow of the work, not around access to steam power. These companies, who envisioned the technology as a chance to transform their businesses, were far more successful than their competitors.

So are we overreacting? Our conviction is that the world has entered the third industrial revolution. Digital technology has the potential to improve corporate performance and reach radically, but the analogy with the second industrial revolution shows that digital transformation is as much about organizational change as it is about implementing new technologies.

What are corporate leaders doing to implement change? The study identifies common patterns. How can executives drive change throughout their organizations? We highlight the paths toward success.

"Come on. I know the company's more than 100 years old, but our IT capabilities don't have to match the age of the company."

(an executive quoting a younger employee)

"We kind of fell behind our competitors a little bit. We hope to be one of those that falls behind in the race early and then kicks it into gear and wins"

(a hospitality firm executive).

This study aims to give insight into the "What", the specific set of digital initiatives implemented by organizations, and the resources used to do so, as well as the "How", the ways in which leaders shape and drive transformation in their organizations. These can also be thought of as "Substance" and "Style".

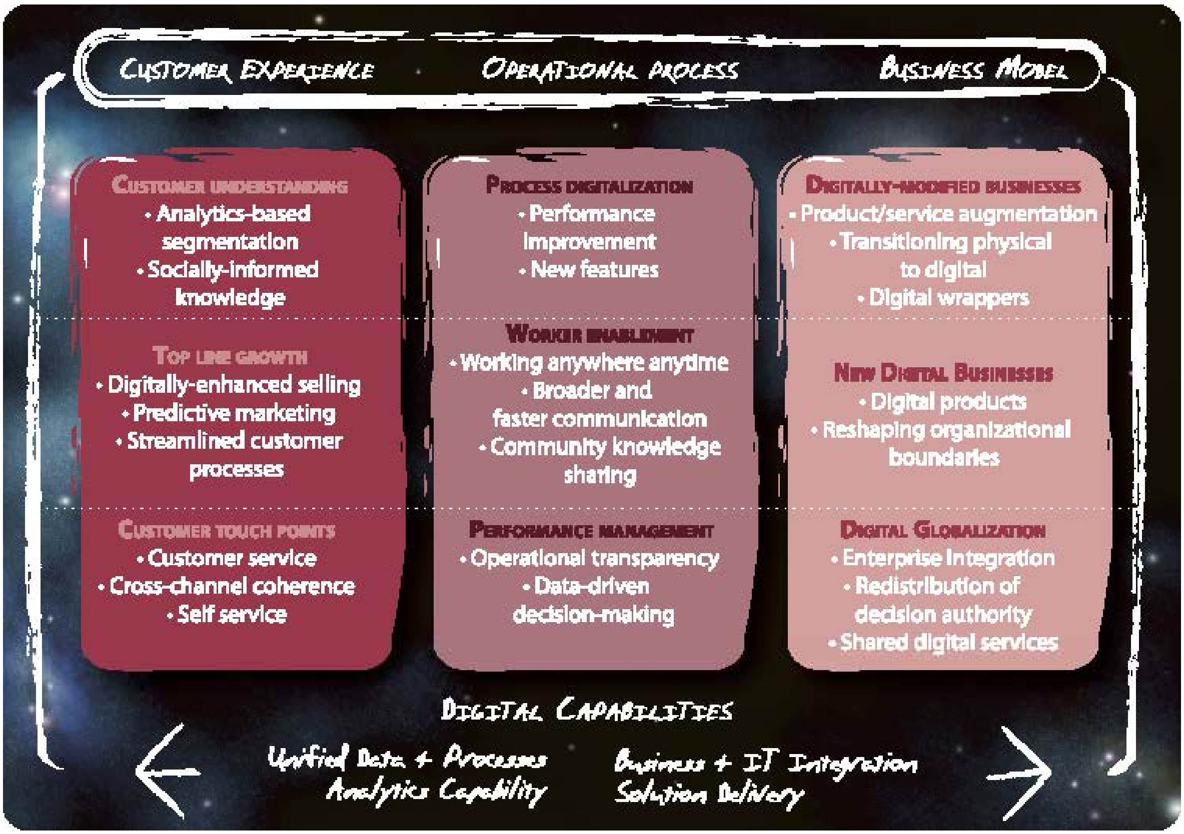
Digital maturity requires organizations to be mature on both the "What" and the "How". Where does your organization fit in?

What's the revolution about?

Digital transformation is a multifaceted undertaking. However, there are a few emerging patterns. Executives are digitally transforming three key areas of the firm's value proposition: customer experience, operational processes and business models.

"What is digital transformation?" The answer to this core question can be found in the figure below. It shows nine digital building blocks where companies invest, deploy

Executives are transforming three facets of their business



What's the revolution about?

technologies and resources, and change their organizations in the quest for digital transformation.

What are some of the things they're doing, and why?

Engage customers in a conversation

Digital technology enables companies to understand and collaborate with customers in exciting new ways. The dialogue between customers and companies has become lively, interactive – more broadly based and more focused at the same time.

One manufacturing executive points out that "with social media, we are able to react more quickly to customers' color preferences." A similar direct benefit is noted in the experience of a banking company that set-up a Twitter account for rapid responses to client complaints, saving customers the trouble of visiting a branch or calling customer service. The benefits often extend beyond what was envisioned, as described by a mortgage executive: "We launched a non-profit real estate community to help our customers. As an unplanned benefit this helps us to understand them better. We subsequently launched special products, such as a special loan offering for divorced people, following several customer questions."

Relationships are great – and even better if they feed profitable top-line growth. Digital technologies offer plenty of power to make this happen. Some companies leverage customer purchasing data to create a more personalized sales and customer service experience. "Analytics help us segment our clients and connect SME offerings and clients in a predictive way," says one executive. Other companies create concept stores to innovate around customer experience or use plug-ins to simplify the buying experience. The revolution in the way companies and customers interact is leading to closer, more personal relationships, and rising customer satisfaction, but also higher customer expectations. This means, for example, that companies must meet the challenge of creating consistency across all channels and touch points, whether physical or digital.

Rewire your operations

Although transformed customer experiences are critical to corporate performance, firms also realize strong benefits from transforming internal operations and processes. The benefits go beyond improving efficiency and quality of production processes. Automation lets companies refocus their people on more strategic tasks. A materials company automated many R&D processes so that its researchers could devote themselves to innovation and creativity instead of staying mired in repetitive efforts. In addition, the data streams created by automated processes produce a wealth of information that can be usefully mined down the road.

Another area of fruitful change involves virtualizing individual work processes. A financial services firm replaced assigned desks with a completely modular work space, where even the CEO might work in a different place each day. Meanwhile, the firm's collaboration and networking tools allow employees to talk with anyone in the company from wherever they are sitting. This is setting the stage for further changes related to globalization. The tools that virtualize individual work, while implemented for cost reasons, have become powerful enablers for knowledge sharing.

In a broader sense, digital transformation replaces limited one-way vertical communication with broad communication channels that are both vertical and horizontal. Leaders can engage in two-way communication instantly and at scale.

Performance transparency was also a key highlight mentioned during interviews. Executives in most companies say they are more informed when making decisions. Transactional systems give executives deeper insight into products, regions, and customers, allowing decisions to be made based on real data and not on assumptions and intuition alone. This is happening in both internal processes and customer-directed processes.

Check out your business model

"We've realized that if we don't transform the way we do business, we're going to die. It's not about changing the way we do technology but changing the way we do business." This media executive knows that digital transformation can reach into the very heart of how companies choose to define their businesses and build their business models.

Digital technologies give companies the tools to make the shift from multi-national to truly global operations. They are, in the words of many executives, "becoming more centralized and decentralized at the same time." Technology,

What's the revolution about?

coupled with integrated information, allows companies to leverage global synergies while remaining locally responsive. By building digital business platforms, companies benefit from global shared services for finance, HR, and even core capabilities like manufacturing and design. Global shared services promote efficiency and reduce risk. They also promote global flexibility. A manufacturer in the study shifts production around the globe with only a few days' notice in response to interruptions or excess demand. At the same time, a company will perhaps stay true to its traditional business but use digital tools to launch a new growth area, like the grocery firm that stated: "After two years, our e-commerce platform is bringing us 20% of our new clients and our traditional clients are consuming 13% more on average." Or maybe companies add digital features to traditional products (for instance, some B2B firms are extending beyond their traditional products to provide services incorporating digital components) or create entirely new fields in which to find value.

What is certain is that many executives out there are looking at how digital technology can reshape their organizations, support globalization or lead to new growth.

Although some companies are digitally transforming their companies in exciting ways, many companies face significant challenges as they move forward on the path to digital success.

Don't forget to work on your digital capabilities

Digital capabilities cut across all three pillars. They are a fundamental building block for transformation in customer experience, operational processes, and business models. Although CIOs and existing IT departments lead many digital initiatives, some firms acquire extra skills or build separate units to manage digital efforts.

Unified data and processes: The most fundamental technological need for digital transformation is a digital platform of integrated data and processes. Large successful companies often operate in silos, each with its own systems, data definitions, and business processes. Generating a shared approach to customers or products can be very difficult. Without a shared perspective, advanced transformation of customer engagement or process optimization cannot occur.

Solution delivery: Most IT departments have solid solution delivery methods in place, but they are often geared to tightly defined requirements and mature technologies rather than emerging digital technologies and practices. Mobile and social media, for example, often require fast and iterative approaches to learn about what will work in the market or workplace.

Analytic capabilities: Companies can gain a strategic advantage over competitors by combining integrated data with powerful analytic capabilities. However, building analytic capabilities is difficult and requires changes to skills and culture in addition to investments in information technology.

Business and IT integration: Technology and business executives need to work together to implement digital transformation, so companies with a history of strained IT-business relationships have an additional hurdle to overcome. Companies that have solid internal IT-business relationships, have a more solid basis from which to launch digital transformation.

Why it's so hard to change the world

The vision thing

Why are only one out of every three companies truly reshaping their businesses through digital transformation? An important underlying cause is that many companies are still working to understand whether and how to change. Benefiting from transformation typically requires changes in processes or decision-making that span traditional organizational or functional structures – in other words, transformation requires a vision that goes beyond existing silos. This must be a top-down effort.

> "We've always been fairly slow in adopting technology because we more or less have the ambition of not being first."
>
> (a manufacturing executive)

Executives may doubt the benefits of emerging technologies. The experience of e-commerce taught many that a fast follower approach can sometimes be better than a pioneering approach. Such skepticism, however, can result in complex investment processes that prevent the firm from engaging in digitally-enabled experiments and business changes that need to happen quickly.

Company performance can also slow the move to transformation. If the company is not experiencing pain, the perceived risk of change may outweigh the potential benefits in the minds of many executives. One manufacturer stated: "At the end of the day, we don't want to stay on the edge of the latest trend. It's not really our business." There's nothing wrong with this as long as it's a conscious choice.

Lack of awareness of the opportunities or threats of digital transformation can also be an issue. An executive in one of the world's largest financial companies provides the following example: "When I made a presentation to the board, I was astonished that none of the senior executives were aware of TripAdvisor." Executives who don't see new possibilities may not understand when or how to change.

The governance thing

Vision is the start, and governance helps firms get to the finish. To bring about transformation, managers in different divisions or functions must move beyond incremental vision and traditional business models to learn new ways to coordinate. Incremental vision leads to incremental change – which stands in direct opposition to the radical top down transformative rethinking of the business that will truly harness the performance benefits of a successful digital transformation. Unless senior executives establish a transformative vision of the future, and governance mechanisms to ensure progress in the right direction, managers will tend to optimize locally within their own spheres of authority.

> "We need to start rethinking our strategy. The approach of throwing everything out there and thinking that something is going to stick is not the way to go."
>
> (a hospitality executive)

Revolutions are complicated!

Even when the drive and vision are there, companies often miss other elements they need in order to successfully implement change. Among major challenges, skills are mentioned by 77% of executives, culture by 55% and effective IT by 50%:

Skills in emerging technologies. From mobility to social media to analytic-based decision-making, companies fill gaps in expertise by working with vendors, hiring from the outside, or promoting from within.

Culture can enable or inhibit change. Some challenges include being able to think beyond silos, being receptive to changes in the job, and being able to make use of digital information in decision-making. All require communication and help from the organization to make changes stick.

Effective IT. Many information technology infrastructures are proliferations of hardware and applications overlaid on one another into complex, inefficient and costly systems. This spaghetti makes it difficult to get a unified view of customers or to change business processes. The issue is even more pronounced when the speed of business change accelerates.

The successful revolution

Implementing successful digital transformation is a complex endeavor. To simplify things, executives can visualize their transformation journeys in terms of two major themes.

The "What" is the specific set of digital transformation building blocks implemented by the organization, including leveraging strategic assets and making investments to generate business benefits.

The "How" is the way senior executives drive change throughout the organization. This includes defining and communicating a vision, establishing governance and measurement mechanisms, and building a digital-ready culture.

The What and the How of Digital Transformation

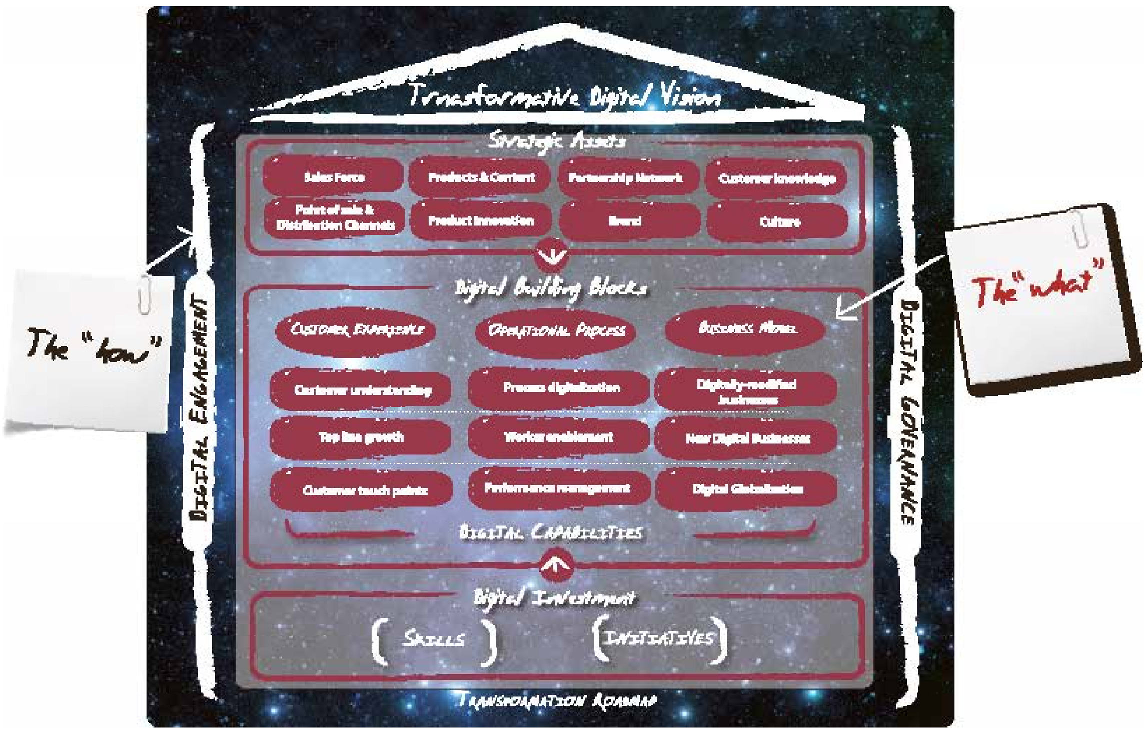


Figure out where you are

Large companies come through major transitions by leveraging valuable strategic assets and transforming them for the new environment. The idea is not to start doing something completely new – but to utilize the capabilities you already have to gain advantage through digitization. Therefore, the starting point is thoughtful diagnosis: Where do your company's advantages and skills lie? What assets will be valuable in the new world? Which will not?

Our interviews indicated that those companies that have been successful at digital transformation have been very clear about the key assets they chose to leverage and the ones that no longer provide value.

From products and brands to distribution or customer knowledge, the savvy executive team diagnoses the exact capabilities where it can gain advantage through digitization. For example, a global insurance company realized that its distribution channels were a critical asset. It decided that its Commercial Officer would lead the digital transformation process to ensure its key assets (the distribution channels) were used to their full potential.

Envision where you'll go

Once you know what you have in hand to start your journey, company leaders must create a transformative vision and communicate it throughout the organization.

There is no set blueprint for a successful vision. Companies in the study described visions that were externally or internally focused, or a combination of the two. Some targeted specific business units, others the entire firm. In some cases, new businesses were imagined, in others the focus was on improving existing businesses, or transforming the company as a whole. What will work for you?

> "Unfortunately, digital transformation was not a priority of the board a year ago: we then had 2-3% of digital revenue. Now this has changed and we have set a challenging target of 15% for all divisions."
>
> (the CMO of a financial company)

The successful revolution

Invest to get there

The investment needed for digital transformation may be large, and a standard business case may not be clear. Successfully harnessing the digital revolution is often a strategic decision which only senior executives can make. In most cases, too, the changes aren't fully planned in advance, but rather built-up through investment in initiatives that move the vision forward step by step.

Lead the way!

Top-level vision brings the company from here to there through strong engagement and appropriate governance. People can do more to block successful transformation than any complex technology, so communication is key. Successful transformation leaders use digital governance to refine and monitor progress toward the vision, while consistently communicating to keep the whole team moving in the same direction.

Consistent messages backed with appropriate coordination, measures and incentives, make the difficult process of transformation possible.

Drive the revolution through Style and Substance

Two key elements are at the heart of the alchemy of successful digital transformation: digital intensity (the "What") and transformation management intensity (the "How"). These two dimensions represent the digital maturity of an organization. Together, they can be thought of as "Style" and "Substance". Firms that are mature in both dimensions can drive powerful digital transformations that yield business value – a true

Digital Transformation Maturity

Drive the revolution through Style and Substance

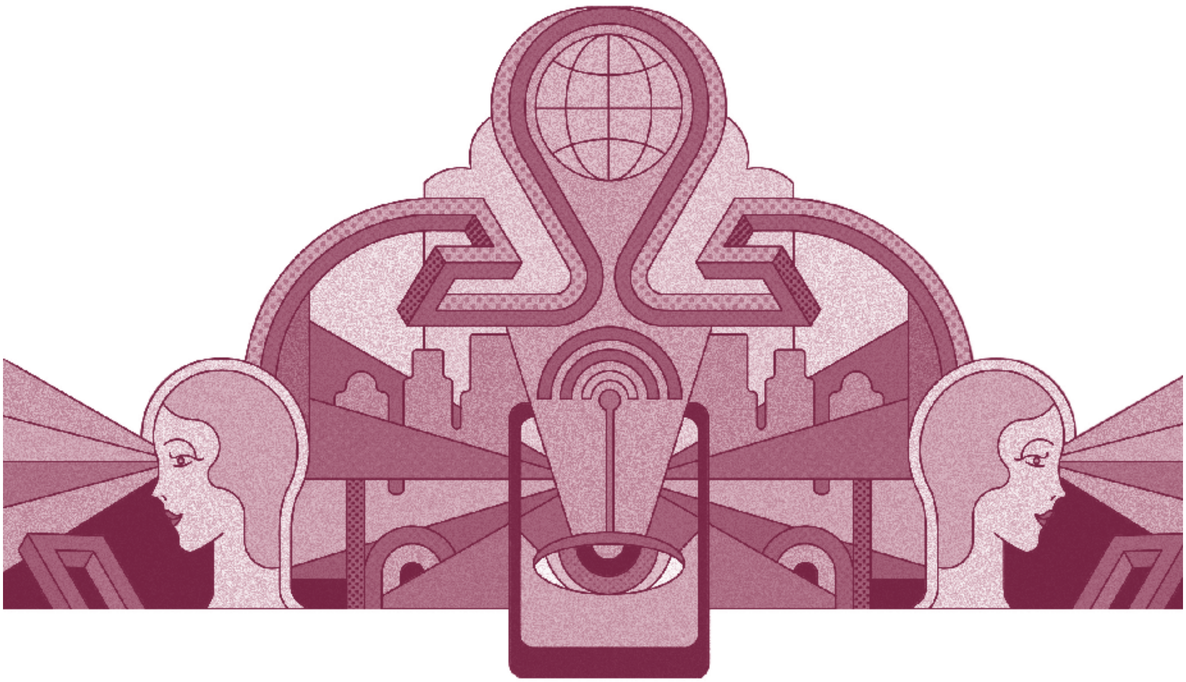
revolution. Many firms in our study have matured in one of these areas, while others are still considering how to move forward.

▶ Firms in the lower left are Digital Beginners. These companies do very little with advanced digital capabilities, although they may be mature with more traditional digital applications such as ERP or internet. Companies may be in this quadrant by choice. For example, executives in a specialty chemicals firm believe that their B2B customers will not be interested in social media or mobile technologies, and that their engineering employees are very effective with more traditional collaboration tools. However, more often than not, companies are in this quadrant by accident. They are either unaware of the possibilities of new digital technologies or are starting some investments without effective transformation management in place.

▶ Firms in the top left are Digital Fashionistas. These companies have implemented or experimented with a large number of sexy digital applications. Some of these items may create value, but many do not. While they may look good together, they are not implemented with the vision of gaining synergies among the items. Digital Fashionistas are motivated to bring on digitally-powered change, but their organizations' digital transformation strategy is not founded on real knowledge of how to maximize business benefits. We see many Fashionistas in B2C businesses, where companies, especially the marketing units, believe they must move quickly to keep up with the fast-moving world of consumer electronics, but are not necessarily thinking about a vision of how the elements will collectively create value. Some firms are in this quadrant at the corporate level, even though digital efforts in silos maybe in other quadrants.

▶ Firms in the bottom right are Digital Conservatives. These represent the wise old men and women of the digital world. They understand the need for a strong unifying vision as well as for governance and a new corporate culture to ensure that investments are managed well. However, they are typically skeptical of the value of new digital trends, sometimes to their detriment. Digital conservatives understand where the company should be going and how to master digital challenges, but they often can't build up the momentum to carry ambitious programs. As a result, though aiming to spend wisely, their careful approach may cause them to miss some valuable opportunities upon which their more stylish competitors will pounce.

Firms at the top right are Digirati. They truly understand how to drive value from a digital transformation. They combine a strong shared vision for transformation, careful governance and commitment, and sufficient investment in new opportunities. By carefully managing the "how", they develop a digital culture that can envision further changes and implement them wisely. By sufficiently managing the "what", they continuously advance the competitive advantage their business draws from implementing digital transformation. Several firms have reached Digirati status at the business unit level, some have even achieved enterprise-wide Digirati capabilities.



Where do we go from here?

Digital technology, which transformed the media industry, is now transforming the rest of the business world. Companies in all industries and regions are experimenting with – and benefiting from – digital transformation. Whether it is in the way individuals work and collaborate, the way business processes are executed within and across organizational boundaries or in the way companies understand and service customers, digital technology provides a wealth of opportunities to those who are willing to change their businesses.

The pressures for change are increasing from many angles. Globalization is dictating efficient integration of businesses which can only be achieved through digital processes and collaborative tools. Employees and customers are starting to demand new ways of working. As competitors and new entrants make digitally-enabled practices a reality in an industry, other firms will need to follow.

Faced with these challenges, what are the key steps senior executives should take to steer their organizations?

1. Envision the digital future for your firm.

- What assets will be valuable in a digitally transformed business?
- How can you transform customer experience? Internal operations? Your business model?
- How can units work differently – and work together differently – in a more connected way?

2. Invest in digital transformation initiatives

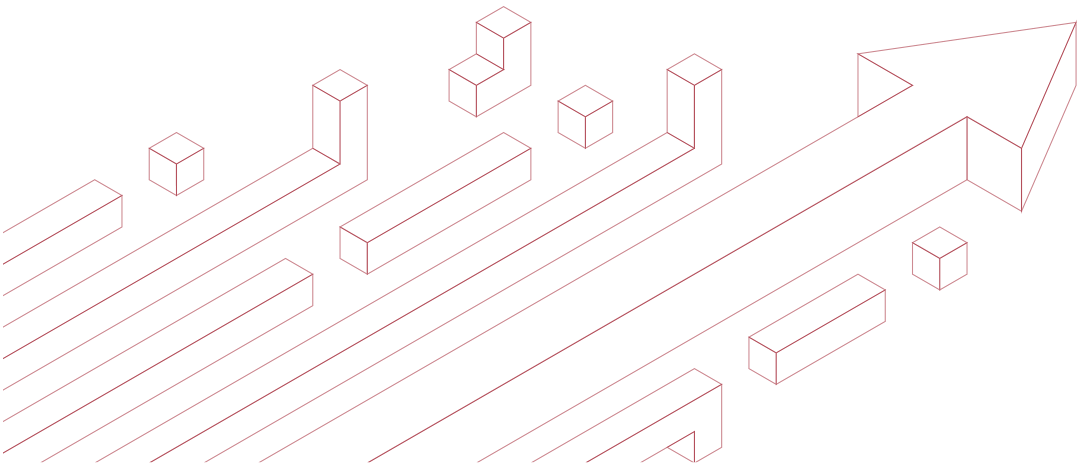
- Are you getting all of the value out of your previous technology and platform investments in ERP, analytics, or collaboration tools? If not, what is necessary to get the foundations right?
- Where are the key investment areas that will maximize the contribution to the new vision?
- Can you de-risk some of the investments through experimentation and controlled testing?
- What skills are missing in your digital transformation initiatives? Do you need to hire new executives? Retrain front-line employees? Partner with another firm to gain capabilities?

3. Lead the change from the top

- How do you communicate the vision and engage the organization on a large scale? How do you monitor commitment?
- What process do you have in place to iterate the vision and strategy?
- How do you coordinate investments and activities across silos? What is the best organizational model to coordinate digital initiatives in parallel to the core business?
- What KPIs and metrics do you need to monitor the progress of your digital transformation toward your strategic goals?
- What mechanism do you use to make the necessary adjustments?

Digital transformation requires skills and influence that only senior leaders possess. Creating a transformative vision that is clear and compelling will galvanize your organization. Mindfully considering what parts of your company should move – as well as why and when – will make it implementable. Taking action and monitoring progress will turn the vision into reality.

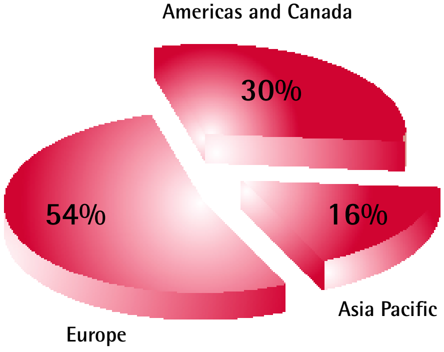
You can download the complete study at www.capgemini-consulting.com

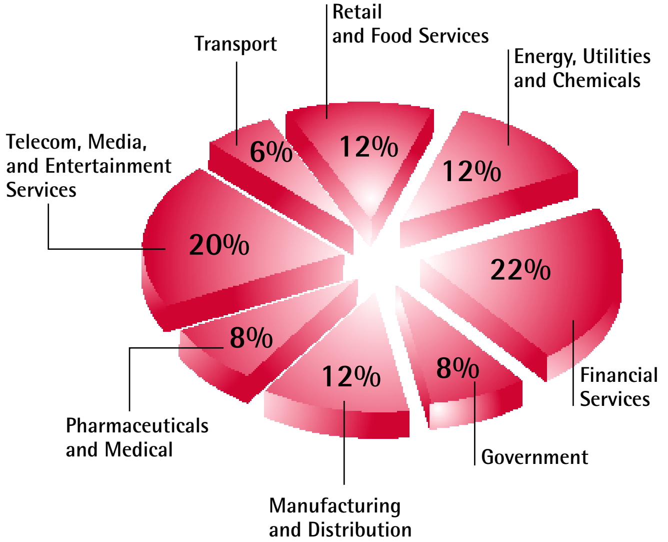


The study

The MIT Center for Digital Business and Capgemini Consulting set out to investigate the ways in which large traditional companies around the world are managing – and benefiting from – digital transformation. Phase 1 of this multi-year research is an exploratory investigation involving 157 executive-level interviews in 50 companies in 15 countries. These companies are large, with typically $1 billion or more in annual sales. We conducted in-depth interviews to qualitatively explore the nature of the digital transformation phenomenon with real executives in real companies. To provide balanced perspectives, approximately half of the interviewees are business leaders such as CEOs, business line managers, marketing heads, or COOs, while the other half are IT and technology leaders.

Interviews covered a broad range of countries and industries





Still some skepticism amongst the C-suite about the potential of social media

Around 50% of the C-suite still does not perceive social media in a very positive light

Social Media still not considered a top strategic priority in spite of its business benefits

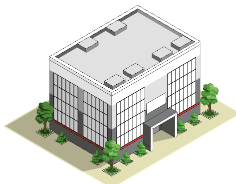
78% of senior executives think a social business strategy is important to the future success of their business

In spite of this only **27%** list social business as a top strategic priority

And less than half think a social plan is necessary

Source: The Jive Social Business Index Survey, June 2011

The Business buyer has become social



59% of business buyers share learnings from their research and buying process through discussion forums, blogs and tweets

37% of business buyers post questions on social networking sites looking for suggestions/feedback

64% of decision makers read online forums or discussion groups to make purchase decisions

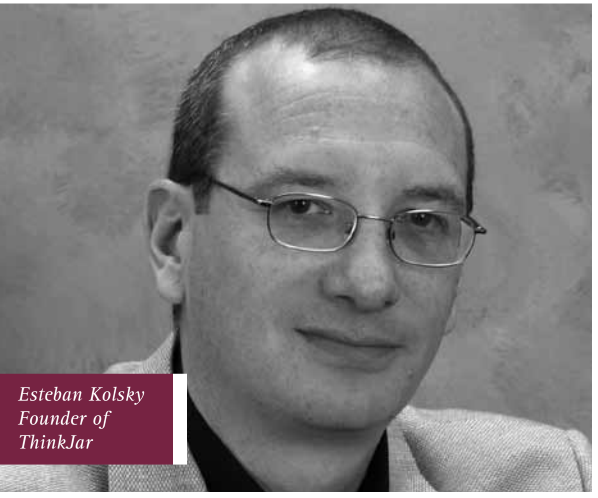
86% of business technology buyers engage in social activity for business purposes

Source: Forrester Q1 2011 US and European B2B Social Techno graphics online survey for Business Technology buyers - “Inside the Mind of the new B2B Buyer” by Demand Gen, Feb 2010

The rise of social CRM – or capturing the customer conversation

Introducing social networks into customer relationship management is one of the most exciting aspects of digital transformation. Technology is bringing about a revolution in the way companies and customers interact, but is also challenging companies' capabilities to create consistency across all new channels. We discussed the topic with two leading experts and commentators. Paul Greenberg is the author of "CRM at the Speed of Light: Social CRM Strategies, Tools, and Techniques for Engaging Your Customers". Esteban Kolsky is the principal and founder of ThinkJar, an advisory and research think-tank focused on customer strategies.

Paul Greenberg
Managing Principal of The 56 Group, LLC



Esteban Kolsky
Founder of ThinkJar

Capgemini Consulting: In a nutshell, how would you define social CRM (customer relationship management)?

Paul Greenberg: The most-widely accepted definition is that it is companies' responses to customers taking control of the conversation. Traditional CRM is about automated processes to capture, organize and store data – and use of data analytics for sales and marketing solutions. By incorporating the social channels, social CRM extends this process and allows customers to provide input to the company. The unstructured data in the customer conversation is captured by the company, and it is incorporated into traditional CRM.

Esteban Kolsky: I agree. Social CRM is about addressing the needs of customers by extending CRM to new and emerging channels. Core business functions have not changed. Instead, companies are adapting to the changing behaviors of customers by adding these new channels. Social CRM is not an end goal in itself. Rather, it is a step-by-step process to address the way in which society is changing.

PG: Another way of putting it is that Social CRM is an ongoing, ever-evolving strategy for engaging with your customers.

Conquering the Far West

CC: When and why did companies first start to use social CRM? Who were the pioneers?

E.K.: You can't really talk about pioneers. What happened is that companies, or individuals in companies, became aware of the social media movements and realized that they had to do something. For example, someone in Comcast saw an opportunity to address a growing need and decided to act, without any top-down approval. He and others like him realized they could serve customers better, and stay on top of a technological evolution. These 'social media cowboys' understood that social media was an untamed place with potential. They set off to conquer this new 'Far West'.

P.G.: Innovative people within organizations were sensitive to the emergence of new needs. Without necessarily calling what they were doing social CRM, they were able to figure out the changing landscape, mainly because they were themselves participants.
One good example is Procter & Gamble. The CEO realized

The rise of social CRM –
or capturing the customer conversation

that his customer base had changed, and saw a possibility of enhancing the customer experience using the new social channels. The setting up of social networks within the company was customer-led, and resulted in the strategic reshaping of the company.
Dell was a pioneer in setting up social media centers within the company. Essentially, these are command centers that monitor social media data by capturing the customer conversation. This and other examples indicate intelligent, strategic uses of social media, rather than anything holistic.

E.K.: Dell is a good case. Seven or eight years ago, customers were attacking the company in blogs because of its poor support and bad machines. This was before the appearance on the scene of social networks such as Facebook and Twitter. Dell started working on the problem and saw that the social networks could be an opportunity. Today, their social media centers employ 6,000 people trained to monitor social media on a daily basis. We're talking about a NASA-style organization, with huge screens showing data coming from everywhere!

CC: Would you say there's a first-mover advantage?

P.G.: First and foremost, it depends on leadership and culture – whether companies have the drive and people to be adapters and innovators or not. For the more cautious, it depends on fast followers. Is a company willing to change? Can the culture be adapted? Are they risk takers? At this early stage it seems that most companies are going for incremental change.

E.K.: Social CRM is the same as any change. You can probably go back to three simple categories: early adopters (around 10% of companies), mainstream – they see something working and they adopt it (around 80%), and laggards (around 10%).

Do Companies Really Have a Choice?

CC: How has social CRM changed the relationship between companies/ brands and their stakeholders?

E.K.: For some companies who had never talked with their customers, social CRM is a dramatic change, even if they don't do very much.

P.G.: For a company like Giffgaff (the UK-based mobile phone services provider), their culture never changed because from the very start they were centered on engaging with their customers. Social CRM didn't change their viewpoint because they already had one of the best customer relationships in the business.

E.K.: Anyway companies don't really have a choice. They have to become involved. Either because they want to get ahead, or because they just have to do it.

CC: Does social CRM use vary significantly across sectors?

E.K.: It's not a question of differentiation by industries, though some – for example, telecoms and financial services companies – are more exposed than others to the new channels. Here again, it all depends on companies' abilities to use social CRM.

P.G.: It's not a vertical issue. Some highly-regulated industries face governance and compliance issues that can limit the interaction with customers. For example, US federal government agencies are not allowed to keep cookies. This makes it difficult to capture information. Pharmaceutical companies also have similar information restrictions.

E.K.: For some companies there are also internal compliance issues. For example, it took FedEx two years to get the legal authorization to have a Twitter ID. And once they had it, they didn't know what to do with it. So in some cases, the shift is slow. There's another interesting example. For a long time, Southwest Airlines didn't use email for customer relations. They didn't know how to use it in a way that would meet customers' expectations. So they said upfront: we're not ready. It took them five years to decide how they wanted to use email to communicate with customers.

CC: How should companies organize themselves to make social CRM part of their business model? Should it be seen as a new "function"?

P.G.: Again, it depends on the company. You don't have to call it social CRM to do it. Most companies don't even have CRM functions, while others call it CRM & customer experience. What matters is working out a strategy. Where are you going to engage the customer? How do you go about doing it? Do you have the people you need to do it?

E.K.: I agree, we are dealing more with an extension of capabilities than with a straight replacement. The old world is still there, the issue is to ensure that you have the right process, technology and people to do it.

How to Measure Success

CC: How can organizations measure the ROI of their social media initiatives? Does ROI, as a standalone metric, even make sense for measuring the impact of these initiatives?

The rise of social CRM –
or capturing the customer conversation

E.K.: Social media is a channel, an infrastructure investment that a company decides to make to optimize its business. It is not possible to measure ROI for infrastructure spending. How do you leverage the investment of being on Facebook or Twitter? What you can do is to measure ROI in terms of the success of a specific project, not building the infrastructure.

In fact, ROI is a tool to protect management because it doesn't understand the value of social CRM and the improvements it can deliver. If you understand the strategic value, you will know it is a good investment.

P.G.: What you can measure, though, is the effectiveness of a campaign carried out through the channel. For example, Comcast measured how well its customer forum was able to come up with solutions. It discovered that 45% of problems were resolved on first contact in the forum, with another 35% resolved on second contact. This resulted in an annual saving of 92 million dollars.

E.K.: But, strictly speaking, you are measuring effectiveness, not ROI. Company marketing people are 'hardwired' to justify a campaign with ROI. It's what they're used to doing. It's a reflex. But it is not always meaningful. What counts is the customer's satisfaction down the line.

> **CC: Based on the success stories to date, where is social CRM most likely to drive company value? E.g. Marketing, Sales, Service.**

P.G.: In this order: Customer service, Marketing and Sales. In fact, it can drive value everywhere, but Sales at this point is a clear number three.

E.K.: We're going to see customer service take control. But as an infrastructure, social media benefits all parts of the business.

P.G.: It's about investing in an infrastructure that is driven by customer strategy. And customers have changed a lot.

A Win-Win Situation

> **CC: How do you see social media in CRM evolving over the next few years? As it matures, which areas will see the greatest impact and require change?**

E.K.: Let's go back to how we defined social CRM: a company's ability to be collaborative with different publics on the new networks. What I mean by that is collaboration between customers, prospects, employees, partners, suppliers and channels to become a customer-driven company. Well, the future will be about growing this collaboration: how companies help customers, how customers help companies, how companies help partners, etc.

P.G.: A mature social CRM is where customers are fully engaged in creating the things they want and companies are giving them the necessary information they need to do so. It's about companies and customers helping each other.

I began writing about the "collaborative value chain" back in 2008. This is when the customer is engaged in the activities of the business, to the mutual benefit of each. That's the future as I see it. The customer becomes a participant in the creation of products and services he wants. And everyone benefits from this.

Early on, Esteban became a star with his theory on the value of enterprise feedback. Social CRM is one step from that. It's all about co-creation – this can mean anything from customers and companies collaborating on product development, to customer suggestions on how to improve a company process. That's the future and social networks are a great infrastructure for getting us there.

Do Champions and Advocates Matter?

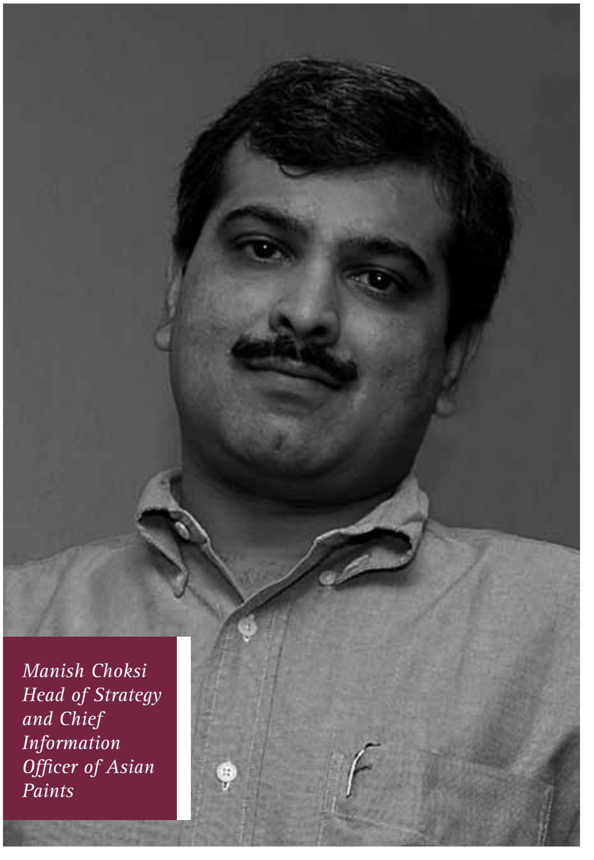
PG: Some sectors such as retail and fashion, or sports, involve a higher level of emotional engagement by consumers or fans. Here, the social channels are perfect for helping these groups, or sub-communities, to communicate.

EK: I think people over-hype the importance of fans, advocates and all the emotion that goes with brands. The value of CRM is not in the creation of fans or advocates for beloved brands. They existed before. For example, there have always been Harley Davidson fans. The goal of social CRM is to work out how it can help your business to sell more goods or services.

PG: I take a slightly different view from Esteban on this. I support the idea of creating advocates to optimize overall strategy. Of course, social CRM is not a panacea and we've already been there. But studies show that the value of advocates has grown, this is the real change. Champions and people who will talk about your company in a positive way can grow customer referral value. In the end, it's about profitable customers. The idea of loyalty has always been there. But it has grown with the additional channels and it's all about extending capability, not replacing existing practices.

Building a world leader through digital transformation

Asian Paints is India's leading decorative coatings manufacturer. The company has been able to maintain its fast growth (doubling its revenues every five years) and globalize, while increasing efficiency, transforming its customer experience and reducing its environmental impact. None of this would have been possible without the successive waves of transformation on which the company embarked a decade ago and that are now becoming Digital Transformation. Manish Choksi, Head of Strategy and Chief Information Officer explains how the digital revolution has transformed the company's operations, and how he views the digital challenges as the company sets out on its ambition to become one of the top five global companies in the sector.



Manish Choksi Head of Strategy and Chief Information Officer of Asian Paints

Capgemini Consulting: Could you describe Asian Paints and its main strategic challenges?

Manish Choksi: Asian Paints is the largest paint manufacturer in India, with US $1.6 billion in turnover. Around 80% of our business is in India and the remaining 20% is international in some 20 emerging and fast-developing countries. In India, which is the fastest growing coatings market in the world, we currently have a 40% market share in the decorative paints business. We also address the Industrial and the Project markets. In India the company has about 120 warehouses and 10 coatings manufacturing plants. Around 20% of our products are manufactured by outside contractors.

We face stiff competition from major international companies in our domestic market, notably Japanese and American, as well as from newer players entering India. Our competitors pursue niche strategies in all of our key markets.

To beat this increasing competition, we constantly need to adapt our product portfolio to the ever-changing and increasingly segmented market demand by introducing new products that meet the décor needs of the country and are environmentally friendly as well. Another challenge is to drive efficiency and growth in a business spread over 120 locations, which deals directly with 20,000 to 30,000 retailers. Keeping our manufacturing and supply chain costs under control is a tough challenge, given constraints of infrastructure and logistics in India. Finally, the company has also begun to sell services (such as a "painted wall") instead of products (a can of paint, for example). Gaining better knowledge of end-customer preferences is a high priority for the company, since its business model – operating largely through retailers – means that customer involvement has traditionally been very low.

The aim of Asian Paints is to be in the top five global decorative coating companies. This will not just happen 'by pure luck' as a result of the growth we are seeing in India.

Digital Transformation in India

CC: How is digital changing Indian society and consumer behavior?

M.C.: Indian society is experiencing a digital revolution. Internet and mobile instant connectivity have completely

Building a world leader through digital transformation

transformed people's lives, and the information divide between urban and rural communities is rapidly disappearing. The number of mobile telephones in India far outstrips the number of landline connections. Even relatively cheap mobile devices, at US $20-30, are now able to deliver an Android-type experience to the end consumer. More people access social networks, such as Facebook or Twitter, from their mobile devices than from their desktops. This is true across all age groups and demographics, and particularly among the under 25 age group who has grown up with this technology. But the phenomenon is actually much broader. Take what is happening in our rural areas, where we see farmers leveraging their mobile devices to access real-time market prices for their crops in several Indian markets and therefore optimizing their income.

CC: How is this digital phenomenon transforming business practices in India?

M.C.: Digital is not only shaping people's lives, but also driving Indian GDP growth. Similar to many Western companies, most Indian firms have recognized the need to invest in digital in order to transform their operations. Substantial strides are being made in investments, although the pace depends on the maturity of the company and the ability of organizations to transform themselves. In contrast to other Asian countries such as Japan, Korea or China, India's investment is entrepreneurial and private sector-led rather than spearheaded by the government. The Indian government is trying to catch up with the private sector.

CC: What are the main roadblocks to a digital society and economy progressing in India?

M.C.: One roadblock is India's mix of cultures and demographics. The country's middle class is growing rapidly and, here, the digital revolution has taken a firm hold. For the country's mass of rural people, however, there may be some cultural and ideological constraints. But as we saw earlier, even in rural areas, our entrepreneurial culture has led to some interesting digital initiatives. Another potential roadblock is the poor enforcement of legislation, as concerns privacy rules, for example. Finally, there must be a lot more investment in physical infrastructure if the country is to live up to the expectations of its citizens. At present, the ability of companies to deliver products and services is severely constrained by the poor state of India's infrastructure.

Digital Transformation Waves

CC: So coming back to Asian Paints, how has the digital revolution sped-up the transformation and development of your company?

M.C.: Over the past decade, Asian Paints has step-by-step transformed its business with the aim of improving revenues, customer satisfaction and internal processes. There have been three major waves of transformation investments.

Industrialization as a foundation

In the early 2000s, as part of an effort to reduce debt and increase internal efficiencies, the firm implemented a 'traditional' enterprise-wide ERP and advanced Supply Chain. This helped to create an enterprise-wide platform that was the basis for further improvements in sales and customer processes. The change also liberated working capital that helped fund acquisitions in emerging markets. By 2003, we began to expand in markets in the Middle East and Egypt, as well as in Bangladesh and Sri Lanka.
Asian Paints became more efficient by linking subcontractors and suppliers on a B2B portal.

During this period, we built an extremely strong financial and operational foundation for growing the company through continued investments, as well as further expansion into emerging markets.

A Customer-Centric priority

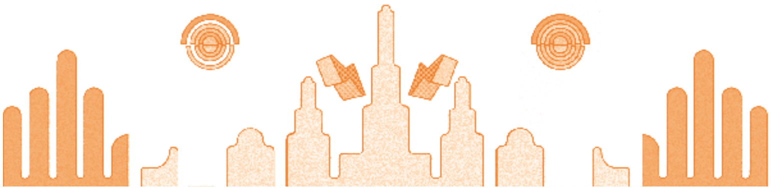
A second wave of transformation investments was directly linked to the possibilities provided by mobile technology to enhance our customer experience and our sales performance. We centralized our order taking process into a single corporate call center. This change helped the company further improve operational efficiencies and sustain its growth. The biggest change resulting from centralizing order taking was in the way salespeople interacted with retailers. Liberated from routine order collection, our sales team was able to focus on building stronger relationships. To enable a more meaningful

Building a world leader through digital transformation

dialogue between the sales team and each retailer, the company provided salespeople with vital customer data in the field using mobile devices. A rollout of tablet devices, which are currently underway, will further enable the sales staff.

Fully Automated Plants

Asian Paints' digital transformation also extended to internal production processes. High growth in paint demand created the need to set up new manufacturing plants every three years. Given the size and scale of these operations, the challenge is to build world-class manufacturing plants. This calls for a high degree of automation to deliver higher labor efficiency, but also better quality and less waste - raw materials comprise 60% of our



costs, so control is important. In April 2010, we opened a 200,000 ton manufacturing plant almost wholly automated.

A new, fully-automated and integrated 300,000 ton plant near Pune, about 140 kilometers from Mumbai, is scheduled to open in January, 2013. The new plant will meet the highest safety and environmental standards. Currently, all our plants boast zero liquid emissions, and we are working toward our target of eliminating all solid emissions in the near future.

Digital technology plays a key role in powering growth and improving management risk. Asian Paints has grown at a compounded annual growth rate of almost 17% a year over the past decade.

CC: Being both Head of Strategy and CIO is a pretty unique combination. What do you see as the main benefits it brings to your organization?

M.C.: Having a combined role as Head of Strategy and CIO gives me a unique understanding of what makes this business work. From a technology perspective, strategy revolves around mobility, cloud, social media, and understanding these connections offers a better overall view of how to drive and support Asian Paint's digital transformation.

Bringing Consumers and Employees on Board

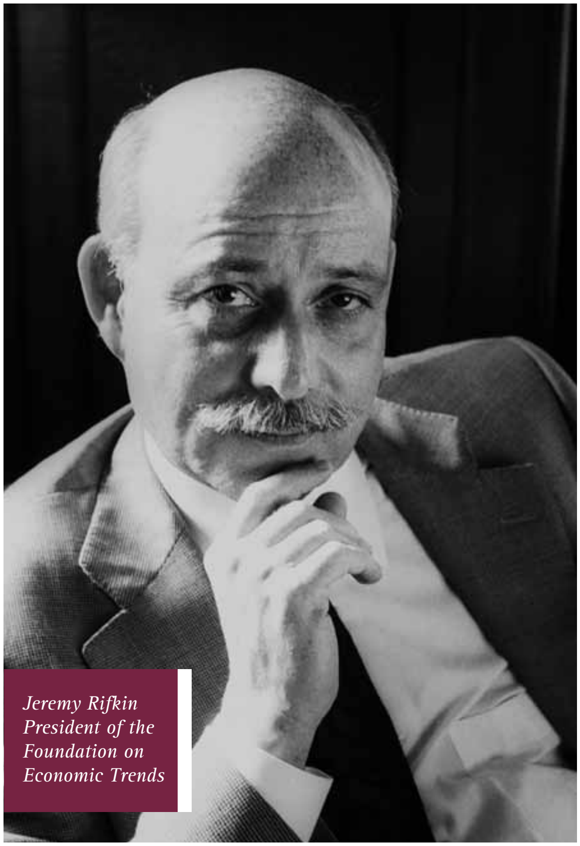
CC: Where do you see the major developments in terms of your digital transformation over the coming years?

M.C.: The next phase of our business analytics strategy is to link up our internal metrics and data with the world of social media. This means looking at all the unstructured data both within and outside the company, either on the web or on social platforms, and merging them. We have already started this journey by integrating social platforms such as Facebook and Twitter with our customer processes to see how we can engage in a relationship with our consumers. The next move will be toward greater collaboration - trying to predict customer demands, so that we can offer products and services that the customer wants. Creating pro-active relationships with our partners, retailers' network and end consumers involves building new technological capabilities within the Marketing and Sales teams. We are just at the beginning of our transformation from a product to a service company (as I said, selling 'painted walls') which involves building a new ecosystem of partners and gathering insights from our consumers.

These large areas for investment will require a change of mindset. The way in which the company engages with employees at all levels within the hierarchy will change. Our management team will have to be more transparent and accountable.

The Third Industrial Revolution has started

Jeremy Rifkin is president of the Foundation on Economic Trends and the bestselling author of 19 books on the impact of scientific and technological changes on the global economy, workforce and society. He has been an advisor to the European Union (EU) for the past decade and is the principal architect of the EU's Third Industrial Revolution – which is also the title of his latest book – a long-term economic sustainability plan to address the triple challenge of the global economic crisis, energy security, and climate change. The plan was formally endorsed by the European Parliament in 2007. Mr. Rifkin is also the founder and chairperson of the Third Industrial Revolution Global CEO Business Roundtable, comprising 100 of the world's leading companies.



Jeremy Rifkin
President of the Foundation on Economic Trends

Capgemini Consulting: Can you explain the concept of the third industrial revolution?

Jeremy Rifkin: We're in the first stage of a paradigm shift that is reshaping not only the economy, but also society at large, and even how we think and perceive our world. The great economic and social revolutions in history occur when two things happen. The first is the emergence of a new energy regime that opens the path to a more complex civilization: the new energy flows can bring more people together, integrate bigger commercial and social units, etc. To emerge successfully, this new paradigm requires a communications revolution powerful enough to manage the new energy regime. The first and second industrial revolutions help us to understand this phenomenon.

In the 19th century, print technology became cheap with the move from manual presses to steam powered presses. Large print runs became possible thanks to low transaction costs. Editors published school books in America and Europe creating a print literate workforce. This print literacy was necessary for managing the complexity of the steam-powered first industrial revolution.

In the 20th century, there was another convergence of communications and energy. Centralized electricity - the telephone, and later radio and television - became the communication media to manage the complexity of the oil powered automotive culture, a suburban infrastructure and a mass consumer society.

The energies used – coal, oil, natural gas, other fossil fuels, uranium - are now mature and their prices keep increasing. The infrastructure and the technologies based on those energies, such as the internal combustion engine, have exhausted their productive potential. Today, the second industrial revolution is clearly on life support, so a new economic narrative is needed that will bring us to a post-carbon era and create hundreds of millions of jobs and thousands of new businesses. That new paradigm is emerging just now in Europe, especially in Germany which is leading the way. A new convergence of communication technology and energy is giving rise to a Third Industrial Revolution (TIR).

A new communication and energy matrix

What's interesting about the IT revolution, especially the

The Third Industrial Revolution has started

personal computer and the Internet, is that it communicates in a very different fashion from the 20th century centralized media that were top-down (such as radio and television). With the Internet, communication is distributed and collaborative. It scales laterally. Today, 2.3 billion people are able to send their video and audio documents to the other 2.3 billion people at the speed of light. This distributed and collaborative internet communications technology, which is far more expansive than all the centralized television and radio networks of the 20th century, is now merging with the new renewable energies, which are also distributive in nature and organized collaboratively.

To understand the new energy regime, you have to think about today's leading energies. Fossil energies and uranium are only found in a few places on Earth. They require huge geopolitical investments to manage them, extensive military investments to keep them secure, and massive capital to finance the infrastructure that goes with them. These elite energies have given us the most centralized, top-down economic structure in history.

By comparison, what we call distributed energies are found literally everywhere: the sun shines all over the world every day, the wind blows across the planet, there is geothermal heat below the ground and ocean waves and tides everywhere. We produce garbage that can be converted back to biomass. In rural areas, agricultural waste can be transformed back into energy. These renewable energies are found everywhere in some frequency or proportion. This new energy regime is just beginning to merge with the new internet communications technology.

Five pillars for the third industrial revolution

The European Union has formally committed itself to a five-pillar infrastructure for the third industrial revolution based on this communication-energy matrix of the Internet and distributed energy. It was endorsed by the European Parliament in 2007. The plan is now working its way through the European Commission and the European member states.

Pillar one is the shift to distributive energy. The EU has committed to 20% renewable energy by 2020. That means a third of the electricity in Europe has to be green. It's mandatory.

How do we collect these energies? Our first approach seemed quite logical. Italy, Spain and Greece enjoy a lot of sun. We could build large solar plants and ship the electricity out to the rest of Europe. The Irish have wind: centralize it and ship it. No one opposes this model, but it won't be enough. Then we asked ourselves: if renewable energies are distributed and found everywhere, why are we only thinking about collecting them in just a few places? We're using 20th century thinking around centralized energy and centralized communications.

Pillar two is buildings. The EU is home to 191 million buildings: houses, offices, factories, farms, etc. The number one users of energy in our economy and the single greatest cause of climate change are buildings. The goal is to convert every single possible building in the European Union to a personal green micro-power plant over the next 40 years to capture the sun on the roofs, the wind on the building walls, geothermal heat underneath the building, biomass with the garbage, etc.
Some of the new buildings in Europe are already positive power. They provide for all of their own needs and send the excess power back to the grid. Germany is leading in pillars one and two; it has reached the goal of 20% green electricity and is heading toward 35% within nine years. Germany has also converted one million buildings over the past four years to micro power plants that are now producing energy on site. The process has created hundreds of thousands of jobs.

The Internet has democratized information. Now, energy is being democratized. Several million buildings in Europe are currently collecting their own green electricity on site. Within ten years, it's going to be tens of millions, and within 30 years, virtually every building will be a green micro-power plant.

Pillar three is storage. Storage is essential because the sun isn't always shining when you need the electricity. The wind doesn't always blow when you most need it. These are intermittent energies. We're going to have to store them so they're reliable. Many different technologies are possible: batteries, capacitors, flywheels, water pumping, etc. We like them all, but in the EU, we put much of the focus on hydrogen as the storage carrier for intermittent energies just like digital is the storage carrier for information. Let's say you have a solar roof on the top of your home and you're collecting energy. If you have an electricity surplus, you can put it in a water tank and let the hydrogen percolate out of the tank into a second tank. So when the sun isn't shining, you can convert that hydrogen back

The Third Industrial Revolution has started

to green electricity with only a very small thermodynamic loss.

Pillar four is where the renewable energy converges with the Internet. We take off the shelf internet technology and transform the power grid in Europe to an energy internet. Now you have millions and millions of buildings collecting their own green energy on site and storing it in hydrogen. If they have a surplus at any given moment, their software technology will direct them to sell that surplus electricity across the energy internet from Ireland to Russia.

Here again, Germany is leading the way by testing this energy internet in six major regions. Every appliance is connected with software to the grid so that we know in that region what every washing machine, every toaster is doing. If there's too much demand for electricity and not enough supply, the energy internet can direct your washing machine to forget the extra rinse cycle! If you sign up for the electricity savings program you get a credit on your bill from the power and utility company at the end of the month. It means everyone becomes an entrepreneur. Everyone is his own producer of energy just like today everyone is his own producer of information.

Pillar five is transport and logistics. Electric vehicles are out this year in mass production. With the third industrial revolution, we'll be able to plug in our vehicles anywhere there's a green building: offices, factories, homes... and get green electricity on site. You can power up from the grid or, if the electricity price is high, your software can direct your car to sell its green electricity back to the grid. If 25 percent of all cars at any given time are selling back to the grid, you eliminate all of a country's centralized power plants.

The five pillars are all linked

These pillars alone are only components. It's when we start connecting them that we create the synergies that allow for a new technology mega platform. If one pillar gets ahead of the others, it all collapses. Here are some lessons we learned in the EU.

European states have encouraged early adopters to convert their buildings to power plants. In return, they receive a premium for selling their electricity back to the grid. This has been so successful that thousands of outlets are now trying to get their green electricity back to the grid. The problem is the grid can't take it because it's 60 years old, not digitalized and unidirectional. So Europe understood it had to upgrade the grid, and make it multidirectional to be able to accept green electricity from thousands of micro-power plants.

Moreover, the premium was so successful that some regions in Europe are at 20, 30, 50, 70% green electricity. The two Spanish regions, Navarre and Aragon, are at 70% green electricity. But we're losing 75% of the kilowatts because there's no storage!

There was also a problem with pillar two, the buildings. Big companies were getting all the premiums because they could invest in the technology. But how does a home owner or a small business invest €30,000 to build a micro power plant? In Germany and Italy, the banks have now realized there's money to be made in handing out green loans so that millions of players can invest in these technologies. The banks look at your electricity bill and they know exactly how much money you're going to save once you start producing your own green electricity. They know that they can't lose.

And finally, we realized that pillar five – transport – is in trouble. Daimler and General Motors are in my Third Industrial Revolution Global CEO Business Roundtable group and they're worried. They launched electric vehicles very recently. But if the other four pillars don't phase in, they're not going to sell their cars. The whole plan requires that each city and region establishes the five pillars so they make the transition to the third industrial revolution infrastructure. Making the shift creates new businesses and jobs from day one.

CC: What sort of governance do we need to implement the five pillars?

J.R.: My global CEO group did the plan for Rome, Utrecht, Monaco and some other places. What we have found is this: as soon as a city or region starts to create its Third Industrial Revolution node, it automatically wants to connect to the next node, and then the next node, just like WiFi. Let's say Rome has a surplus of electricity, they then want to sell it to Florence or Venice. And when they have a deficit of green electricity, they want to buy from one of the other nodes. In this way, it goes city to city, region to region. There are no borders.

This means that we need political governance at the local, state, and continental levels to lead the revolution.

The Third Industrial Revolution has started

At the local and state level, the government authority sets the regulations, the codes, standards, incentives, etc. The local business community comes in with the technology and leverages the infrastructure. Finally, civil society has to buy in because the paradigm shift affects everybody's life.

Then there's the continental level. The first and second industrial revolutions came with an economic model that relied on national governments. The third industrial revolution scales laterally. It likes to run across land and borders until it reaches the ocean. You try to be self-sufficient locally but you have to collaborate and share green electricity across continents. It's only when you have the entire continent connected that you can manage the energy surges and deficits.

Europe's growth project

The European Union is ideally suited if it can move to the next stage of integration. Currently everyone is talking about austerity. But even if the EU makes spending cuts and creates new banking mechanisms and reforms, that won't be enough to grow Europe! As long as we're in the dying economic paradigm of the second industrial revolution, there's no growth potential.

So Europe's plan is the third industrial revolution. The continent has 500 million inhabitants and there are another 500 million people in its partner regions: the Mediterranean North Africa, and beyond. This is by far the richest potential market in the world. Now we need to integrate it into a seamless market space. This means we have to move The Third Industrial Revolution infrastructure across all those regions. Then we establish a single continental energy internet and a seamless communications and transport network so that a billion people can engage in commerce and trade in the largest internal market in the world. This represents the next stage of European integration.

Continental governance

Other continents are moving the same way. The Association of South-East Asian Nations is forming very quickly and is starting to deploy the third industrial revolution infrastructure to create a continental market. The African Union was stumbling until the EU put in almost one billion euros for new energy infrastructure. Now they're talking about establishing regional groupings of nations in Africa to start creating a continental market. The South American Union was created 24 months ago. These continental political unions can't be governed top-down. They're too big. You have to govern them like a network. That requires a common set of formulas for regulations to make sure the energy internet is universally accessible and that the communication and transport networks are seamless.

Our crisis is an energy crisis

When an industrial revolution occurs, you create businesses and jobs during the first 40 years to deploy the infrastructure. Then you live off that infrastructure for the next 40 years. That's what happened with the first industrial revolution. The infrastructure in Europe and America was laid down between 1830 and 1890. And we lived off it for another 30 years. The same thing happened with the second industrial revolution. The infrastructure was built up between 1900 and 1929. Between 1929 and 1945 everything went on hold and took off again after the War. We lived under this paradigm until the early 1990s.

Today, the economy in Europe and the US is collapsing. The second industrial revolution is embroiled in a long torturous endgame with rising energy prices. Make no mistake: the real collapse of the global economy occurred in July 2008 when oil hit $147 a barrel on the world market. The whole economy stopped. That was the economic earthquake. The collapse of the financial markets, 60 days later, was the aftershock. In 2009, oil went back down to $30 a barrel and the economy started growing again. Recently, oil has shot up to $115 a barrel forcing a rise in prices across the supply chain, precipitating another slowdown of the economy. This means that every time we try to restart the economy, with China, India, and much of the developed world, in the game, there's just too much demand for crude oil and not enough supply. We're experiencing restart-collapse episodes one after another.

CC: What does the third industrial revolution mean for companies?

J.R.: The first and second industrial revolutions scaled top-down. Because of the capital needs, we had to create huge centralized factories, centralized supply chains, centralized logistics and transport. That's why three out of the five largest companies in the world today

The Third Industrial Revolution has started

are energy companies. About 500 huge companies depend on materials made out of carbon energies. Those 500 companies create nearly a third of global GDP! Communications are centralized and so is the energy regime. This is our society. It's the way we think, the way we understand economic activity.

Today, companies are undergoing a fundamental shift. Some sectors are far advanced into the new paradigm. For example, the music industry did not understand file sharing technologies when millions and millions of kids began to create software to share music with each other. Then they contracted or went out of business. Newspapers didn't understand the distributed, collaborative power of bloggers. People are blogging, creating their own news and sharing it freely. So now newspapers are trying to create blogs. And many of them won't make it.

The third industrial revolution favors lateral power. It sounds like an oxymoron because we think of power as vertical. Lateral power is when millions of small players come together in vast networks to pool their risks and their resources. They create lateral scaling that is much more powerful than vertical power. It requires a shift in business mentality that the business schools don't teach yet.

CC: So this means many business models are going to change?

J.R.: Yes. Let's take the power and utility companies which are huge centralized institutions. They like to control power supply and the transmission of electricity and sell as many electrons as they can. When we introduced this third industrial revolution model in Europe, obviously some energy companies weren't very happy. But one by one, the power and utility companies started to come to our side because we introduced a new business model. We explained that there are a few million people creating their own green electricity today. Within ten years, there will be tens of millions, within 25 years, hundreds of millions. The cost curve is moving exactly like the cost curve when we moved from centralized computers to personal computers and cell phones. Over a period of 25 years, desktop computers and cell phones became cheaper and cheaper. Now we nearly give them away just to sell the service. It's the same thing with the technologies that harvest renewable energies. Within 20 years, they're going to be so cheap, that virtually everyone will be able to afford the technology.

Just like the democratization of information has reduced its transaction costs, now the same process is happening when internet technology starts to manage the new energies. The energy becomes nearly free. This is "power to the people" - the democratization of energy - and its going to force a fundamental reshaping of the business model in the decades ahead.

CC: So how do the utility companies make money?

J.R.: They'll make money not just by managing the energy internet, but by selling as few electrons as they can! That's counter intuitive. Remember when IBM went through a crisis in the 1990s. They were selling computers with very little margins. The Chinese, the Koreans, the Japanese were all making cheaper computers. So IBM went into a deep retreat in search of what the company has that the world needs. They decided that the company's real expertise lay not in making a physical product, but in managing information.

It's the same with power and utility companies. Their expertise is managing energy and electricity. Their job as a utility company is to set up thousands of partnerships with small, medium and large size companies. They help them manage their energy flow, so that they can reduce their energy costs and increase their efficiencies and productivity. These partners will share their savings back with the utility. This new business model is called a "shared savings agreement".

Energy cost over labor cost

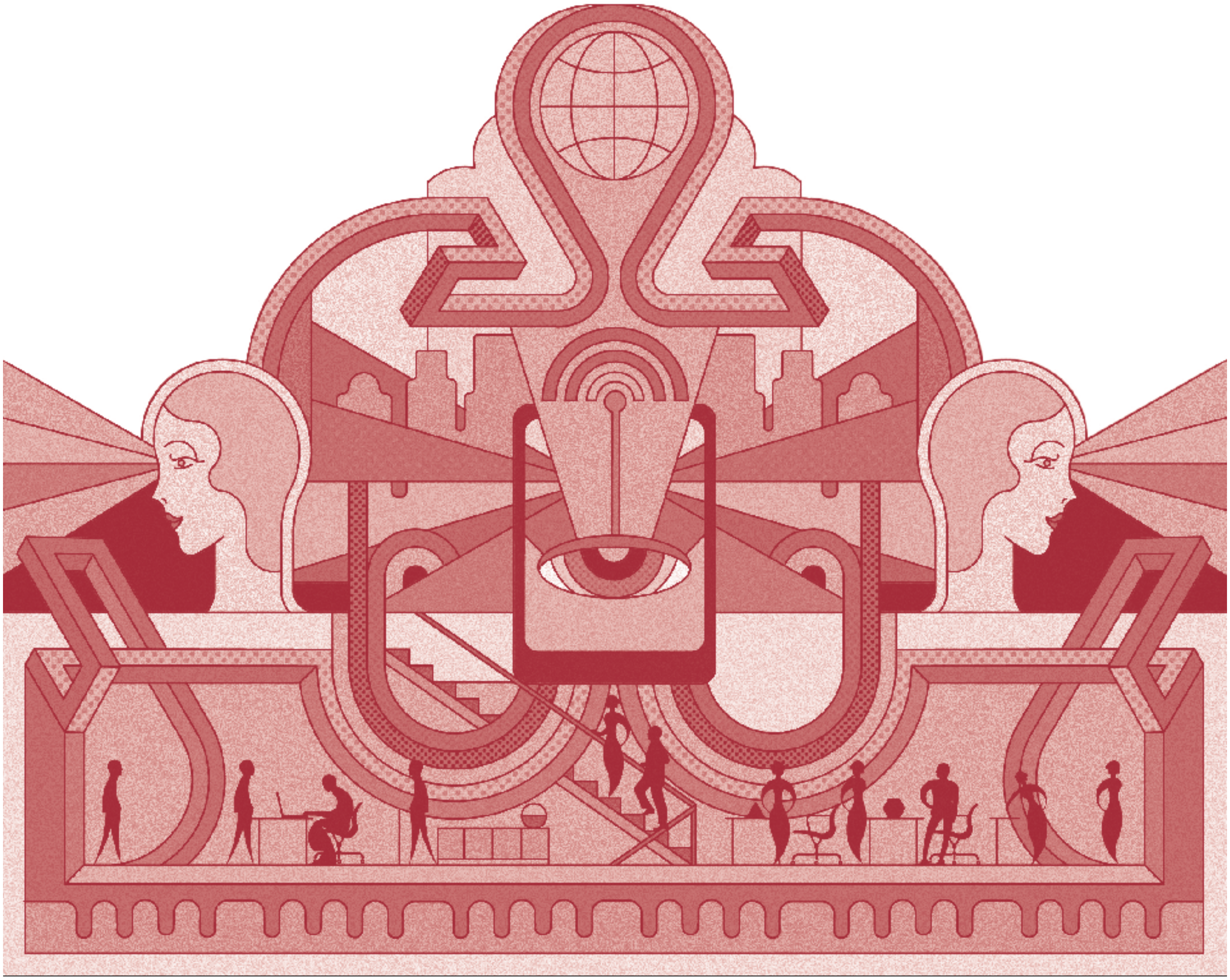
This will work because the survival of every company in the next 30 years, whether it is big or small, will depend on their energy costs, as much as or even more than their labor costs. Many power and utilities will not make this shift. Already start-up companies are emerging that are beginning to bring together IT, energy, and information experts. They're aggregating all the new components of the Third Industrial Revolution game plan into clusters. They manage the energy flows and help clients direct their electricity on and off the grid. So the role of the utility companies may be narrowly circumscribed to manage the energy internet.

New opportunities ahead

Big companies will become more like consultants. They have the technical expertise that will allow them to facilitate the development of The Third Industrial Revolution business networks. But there is no way that centralized companies

The Third Industrial Revolution has started

can control these distributed networks across the globe. It's too big a proposition. They can, however, be strategically placed to help manage the Third Industrial Revolution infrastructure and hone its synergies. Their mission will be to help new businesses develop and mature. This means they must learn to think systemically, not in an isolated way, if they are to effectively connect the potential business opportunities that lie along the 5 pillar Third Industrial Revolution infrastructure. ●



About Capgemini Consulting

Capgemini Consulting is the Global Strategy and Transformation Consulting brand of the Capgemini Group, specializing in advising and supporting organizations in transforming their business, from the development of innovative strategy through to execution, with a consistent focus on sustainable results. Capgemini Consulting proposes to leading companies and governments a fresh approach which uses innovative methods, technology and the talents of over 3,600 consultants worldwide.

For more information: **www.capgemini-consulting.com**
Read our Blog at: **digitaltransformationconversations.com**
Contact us at: **digital.transformation.global@capgemini.com**

About Capgemini

Capgemini, one of the world's foremost providers of consulting, technology and outsourcing services, enables its clients to transform and perform through technologies. Capgemini provides its clients with insights and capabilities that boost their freedom to achieve superior results through a unique way of working, the Collaborative Business Experience™. The Group relies on its global delivery model called Rightshore®, which aims to get the right balance of the best talent from multiple locations, working as one team to create and deliver the optimum solution for clients. Present in 40 countries, Capgemini reported 2010 global revenues of EUR 8.7 billion and employs around 110,000 people worldwide.

www.capgemini.com

Conception : Les Ateliers Corporate - Impression : Solution

Capgemini Consulting