

Meet the future of business: It's called on demand

By Randall Hancock, Peter Korsten and George Pohle

The beginning of the twenty-first century marks the era in which the structure of business begins to reflect fully the changes brought about by the information age. Just as successful industrial age companies were substantially different than their predecessors in terms of scale, scope and organizational structures, the successful firms of the near future will look much different than they do today. Companies that will thrive in an increasingly turbulent market environment will be those that can transform themselves into even more focused, responsive, variable and resilient enterprises that connect their businesses end-to-end with suppliers at one extreme and customers at the other, fusing the best of business and technology, to accelerate value creation. We call these companies on demand businesses.

Reality is harsh

Competition is intensifying, change is accelerating, financial pressures are unrelenting and risks are rising. Welcome to today's reality.

In dogged pursuit of growth, competitors are crossing over into other industries and entering new geographic, product and even demographic markets, wresting share away from established players. Plus, competitive battles now encompass the entire globe as companies exploit worldwide scale and regional cost disparities. With competitors constantly encroaching, maintaining a market-leading position looks a bit like a feisty game of "king of the mountain" where each kid is clawing to stay on top of the dirt pile. Just take a look at the S&P 500. Of the 500 companies listed in 1957, only 74 made it to the 1997 list, and only 12 outperformed the index over the same period.¹

Technological innovation is racing forward as well, continuously changing what's possible – and what's expected. With each successive wave of innovation, consumers are embracing change into their lives faster and faster – the color TV reached 20 percent penetration in the U.S. in 12 years, the PC in 9 and DVD players in just 5 years.²

Compounding corporate worries, today's investors are becoming harder to please given the financial markets performance over the past several years, infamous financial scandals and closer scrutiny by accounting firms that are under the microscope themselves. In fact, financial pressures are stress testing Corporate America's ongoing viability. In 2002, 189 publicly held U.S. firms with a record \$382 billion in assets filed bankruptcy, 12 of which joined the roster of the largest filings since 1970.³

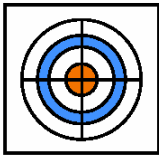
And to cap things off, as business becomes more global and technologically dependent, firms are being exposed to greater risks and more damaging impacts from geopolitical instability, virtual threats, natural disasters and other totally unexpected events such as the Severe Acute Respiratory Syndrome (SARS) outbreak that shocked the world economy.

Deal with it

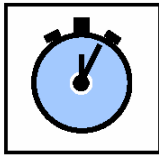
Waiting out these storms is hardly an option. In today's market, competition, change, financial pressure and business risk don't ebb; they only intensify. Trying to forecast the future is futile too, since predictions are inevitably wrong. So, what's a company to do?

Certainly businesses need to prepare for what is known and what is imaginable – but what is really crucial is developing sufficient business flexibility to handle the unknown and the unimaginable *as it happens* – a.k.a. do business *on demand*.

To gain this flexibility, firms need to focus, become far more responsive, migrate more of their cost structure to variable models and develop resilient operations that can withstand a multitude of threats.



Focused. Rather than trying to be best-in-class across all areas of their businesses, on demand companies concentrate on differentiating competencies that matter most to their success, relying on a tightly integrated network of business partners to manage non-differentiating activities. They keep investments channeled into select areas, rather than spreading resources thin across activities that could be accomplished better – and usually more cost-effectively – by focused external providers.



Responsive. Because they closely track shifts in customer needs and other market conditions, on demand firms are able to adapt rapidly to almost anything – changes in customer activity, competitive actions, labor conditions, supply imbalances or regulatory mandates, to name just a few. Not only do they possess information that is accurate, current and aggregated across the enterprise and the entire value net, they also have the ability to analyze that data, make realtime decisions and implement them right away.



Variable. On demand businesses reduce the impact of financial and business volatility by creating more variable cost structures. Variability adds a new dimension of business flexibility across the value chain, such as the ability to increase or decrease production as market demand dictates. Often variability is accomplished through on demand external providers that help take the “fixed” out of fixed costs through variable pricing and supply. Having infrastructure – whether manufacturing capacity or IT systems – at the ready (but not necessarily on the balance sheet) allows on demand companies to pay only for actual use, not idle availability.



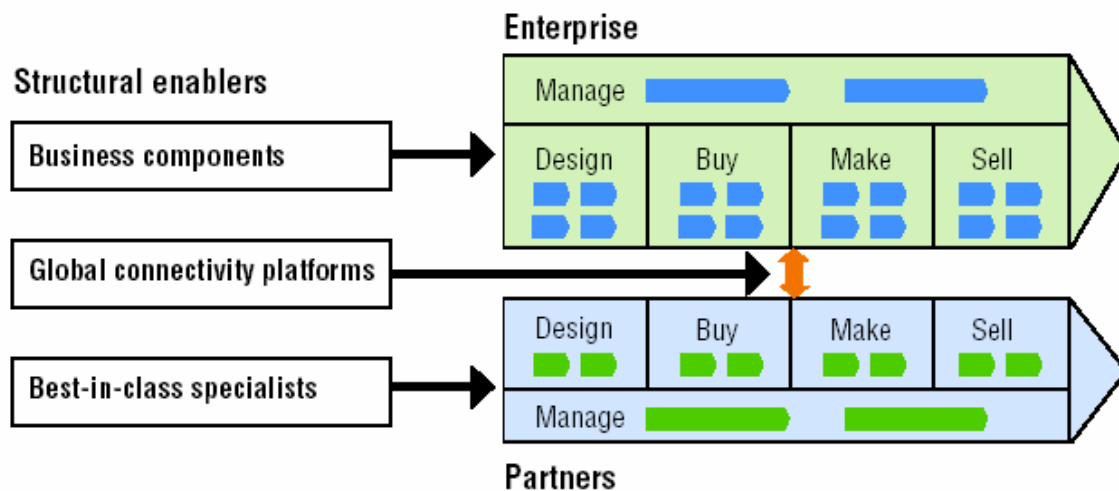
Resilient. On demand businesses can continue operating consistently despite environmental changes and threats – whether technological, economic, natural or political. They safeguard human, physical and virtual

assets and build redundancy in key parts of the operational model to help ensure continuity. And they spend less time and money recovering, thanks to “self-healing” organizational and IT capabilities.

New means. New models.

While companies have been making improvements in each of these areas for quite some time, dramatically elevating performance in all four areas simultaneously is a tall order. Fortunately, a few key enablers are emerging, creating the means to achieve a step-change in business performance.

- 1. Business components.** Businesses have started dismantling their traditional vertical silos, creating shared processes that serve the entire enterprise. However, as practices standardize, software adoption becomes widespread and networks more ubiquitous, enterprises have the opportunity to create an even more granular business composition – one based on business components. A business component can be viewed as a distinct business within the larger enterprise, comprised of people, processes and technologies, managed with some degree of autonomy and held financially responsible for its own performance. A component-based business model provides a higher degree of flexibility, enabling a company to reconfigure and adapt quickly as the business environment changes.
- 2. Global connectivity platforms.** The widespread availability of low-cost broadband networks, open standards and middleware now allows companies to easily and seamlessly interconnect business components globally. Business standards, many brought about by the adoption of packaged software solutions, are making it easier – and faster – for previously disconnected business functions to interact with each other using common business process languages. And even when businesses are operating on diverse infrastructures, middleware and open standards have emerged to accelerate and simplify integration.
- 1. Best-in-class specialists.** Specialists are everywhere, meeting the needs of almost any conceivable business requirement. While they have historically been counted on for business components such as payroll processing, contract manufacturing or IT services, specialists today can provide functions as diverse as logistics, customer service, human resource management and corporate treasury. As global connectivity platforms provide greater functionality with lower transaction costs, they shift Coase’s theory of the firm⁴ into overdrive, spawning a wide array of partnering options that extend well beyond traditional outsourcing.



Source: IBM Institute for Business Value, "Simplify to Succeed", 2002.

Taken collectively, these enablers allow businesses to construct new operating models that are tightly integrated end-to-end, with customers at one extreme and suppliers and partners at the other. Supported by these enablers, on demand firms weave the optimum mix of internal and external business components into cohesive, cost-effective operating models that are agile, capable of rapid response – and easily reconfigured when business conditions dictate.

Achieving good despite the bad and the ugly

On demand is not simply about surviving a turbulent business environment – it's about turning business realities into opportunities to realize value. Just imagine how operating as an intensely focused, responsive, variable and resilient enterprise can impact your financial standing.

Perhaps it's higher revenue because you:

- Substantially differentiate yourself through steady focus on those few capabilities that matter most
- Identify and respond to unmet needs faster than competitors
- Introduce new products and services more successfully because you're better attuned to the market
- Can respond to unexpected demand spikes or new market opportunities with capacity that's "ready" when (and only when) you need it
- Remain available to customers while competitors recover from unexpected shocks.

Or maybe it's better margins because you:

- Earn price premiums by being responsive enough to customize offerings and having the resilience to provide virtually nonstop availability
- Lower inventory levels and achieve quicker turnover rates through greater responsiveness
- Rely on specialists for components they can perform better – and more cost-effectively than you can
- Convert fixed costs to more variable models wherever possible
- Use “self-healing” capabilities to lower recovery costs and keep systems and processes functioning

It could also involve improved return on capital because you:

- Relinquish ownership of non-differentiating assets
- Reduce working capital requirements by focusing on selected business components
- Are attuned enough to the market to avoid investments in unsuccessful product introductions and curtail investment in products or markets that are proving unprofitable
- Rely more on the capacity of external providers and create more variable internal capabilities.

And, don't forget reduced risk because you:

- Increase your organization's expertise in areas that are most critical to its success
- Stay more closely in sync with changing market requirements
- Lessen your debt burden by frequently avoiding the need to finance new assets
- Achieve greater financial predictability
- Maintain more reliable business performance
- Use external specialists that increase overall resilience through their scale and distributed capabilities.

Why wait?

It's ludicrous to think that business will become any less competitive, change will slow, financial pressure will abate and events will suddenly become more predictable. Yet some businesses, by their inaction, seem to be advocating a wait and see attitude. Others, though, are adapting. They're easy to recognize. They're the ones that are busy integrating business processes end-to-end across the company and with key partners, suppliers and customers so that they can respond with flexibility and speed to any customer demand, market opportunity or external threat. They're the ones that are right now defining a clear focus and creating the right combination of internal and external business components to support it, mapping out a transformation plan that uses what they've already started and pays for itself along the way. In short, they're busy making themselves into the most attractive companies of the future... on demand businesses.

References

¹ “Who gets eaten and who gets to eat – Corporate Strategy.” *The Economist*. July 12, 2003.

² Consumer Electronics Association FastFacts Database.

³ Pate, Carter. “The Phoenix Forecast: Bankruptcy Barometer 2003.” February 2003.

<http://www.abiworld.org/pdfs/ThePhoenixForecast2003.pdf>

⁴ Coase, Ronald H, “The Nature of the Firm.” *Economica*. November 1937.