



Overview

Our world continues to undergo profound changes as Internet access and digital technologies have dramatic effects on individuals' actions and companies' business models. In 2009, China was home to an estimated 21 percent of the world's Internet users – roughly 384 million – a number exceeding the total U.S. population.¹ Greater connectedness means a greater volume of online interactions, as well as giving customers more flexibility and control. To survive and thrive, enterprises will need to innovate their business models, particularly in terms of customer interaction, products, channels and pricing.

IBM Institute for Business Value

Winning in China with digital business models

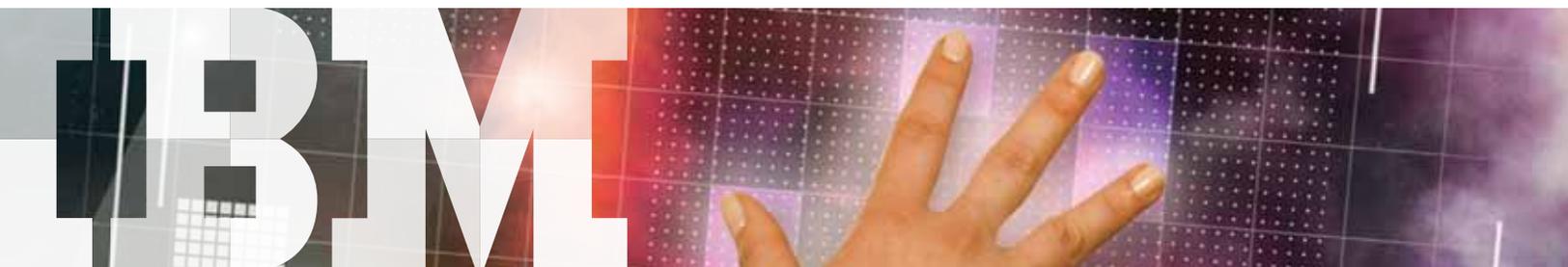
How enterprises can innovate to thrive

The China Internet market is fast becoming one of the world's largest, with 384 million users – 233 million using mobile Internet – and the numbers keep rising.² China's Internet penetration rate reached about 29 percent in 2009 – higher than the world average, but with much room for growth compared to developed regions like North America, where Internet penetration is already at 76 percent.³

Greater interconnection through Web access is breaking traditional physical and time restrictions. Internet and mobile Internet allow users to access the network anywhere, anytime, and they are spending more time online. In 2009, Chinese Internet users spent an average of nearly 19 hours online per week.⁴ The average duration of mobile Internet access was 97 minutes per day, with 3G mobile phone users staying online even longer.⁵

As a result, business activities will be more and more Web-enabled. E-business is undergoing rapid growth in China. The user base of commercial transaction applications grows at 68 percent annually, much higher than other types of applications.⁶ E-business provides numerous new opportunities for mid-size and small China enterprises. And during the global financial crisis, those using e-business have done better than those that did not use e-business.⁷

Although a majority of Chinese enterprises sense the imminent challenges brought about by the digital era, many still adopt the “wait and see” approach. One critical concern they face is how to innovate their business models.



Winning through new business models

In this highly interconnected, instrumented and intellegent environment, IBM analysis found that successful enterprises in China have designed and implemented one of four unique new business models, each incorporating digital elements and creating distinct new value. Understanding these models can provide organizations with a clearer path as to where to focus their innovation efforts:

Integrating physical with digital. The integration of physical and online activities leads to a “blurring of the lines” between physical and digital activities. This provides customers with a seamless and interactive experience. Integration can work both ways, with digital and physical reinforcing each other. The key is the integration across the value chain from customer interaction through operations and supporting processes. Examples of physical integrating with digital: organizations engaging primarily in online activities may expand their physical business, while traditional brick-and-mortar companies can enhance their online presence.

Evolving digital offerings with customer demand. As core customer segments increase their demand for digital products and services, organizations can “follow” this demand by expanding digital offerings tailored to this customer segment. This provides an opportunity not only to build customer loyalty, but also to enhance revenue streams and product profitability. This model also enables synergy among industries/products and resource sharing.

Direct and interactive Web channels. Front-end focus to reach and engage customers through online sales and/or customer communications that are direct, two-way and interactive. To provide these Web channels, companies can focus more on applications and innovations based on digital engagement with their customers through communities, engaging customers in product development, marketing and brand promotion.

Flexible revenue and pricing models. To optimize revenue as products and services move from physical to digital environments. The most common revenue model innovations in this category include: changing the pricing unit (for example, in music, moving from charging for an album to charging for songs or parts of songs), shifting the main charging target (for example, building community around free games and then charging for upgrades), changing the payment format (for example, from charging for a product or service to providing it free in exchange for acquiring specific information about the customer) and switching the payer (for example, from individual users to a third-party sponsorship/advertiser model).

The level of change required varies by business model, with integrating digital with physical representing the most comprehensive transformation across the organization (see Figure 1). Chosing the right model for expanding into the digital era depends on the nature of an organization’s business.

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Degree of change	Focus area	Business model
High  Low	Customer	Integrating of digital and physical
	Product	Evolving digital offerings with customer demand
	Channel	Direct and interactive Web channels
	Price	Flexible pricing and revenue model

Source: IBM Institute for Business Value.

Figure 1: Emerging digital business models in China.

For example, innovations in the operating area apply more to those businesses where the products and services will remain primarily physical, while industries with significant digitization of products and services may consider a combination of multiple innovation models. Enterprises need to customize the most appropriate innovative model for themselves, and choose a path to realize the greatest benefits of the digital era.

Act now

Business model innovation can substantially impact an enterprise. For successful transformation, an enterprise must take appropriate steps to prosper in a changing environment while avoiding negative impact on existing business:

- Step 1: Identify potential digital transformation opportunities.
- Step 2: Assess the impact of digital transformation to value chain.
- Step 3: Design a digital era business model and implementation roadmap.
- Step 4: Build the operations and management processes required to transform.
- Step 5: Continuously adjust and optimize offerings and related processes.

How can IBM help?

- **Business Model Transformation:** Understand the opportunities of the digital era to design and implement business models that take advantage from the digital trend
- **Target Operating Model:** Design the operating strategy that optimizes for delivering in the digital era, optimizing effectively between physical and digital worlds
- **Organization and People:** Enable the collaborative, networked workforce and incorporate a new set of capabilities and resource implications to take advantage in the digital era

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- 3 Ibid.
- 4 CNNIC 25th China Internet Development Statistical Report. <http://www.internetworldstats.com>; CNNIC 2009 China Mobile Internet and 3G User Study.
- 5 Ibid.
- 6 CNNIC 25th China Internet Development Statistical Report. <http://www.internetworldstats.com>
- 7 Website of Ministry of Commerce. People’s Republic of China.



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