Before a business can successfully navigate the digital transformation journey, it has to get its business model right. Different parts of the business may be thinking and doing different things, but to transform, a business has to have a model that enables it to share information and standardize processes. The first element of the framework for such a transformation examines different business models and the ways real-time enterprise architecture can support them.

The opportunities are significant: New technologies mean businesses can execute operations in real time. Streamlined data processing has become easier and faster. Processing and data storage can be managed at much lower costs. And advancements in sensors and mobile technology have created completely new ways to operate. Those innovations are the game changers that help companies get products and services to market more quickly and more profitably.

The primary digital levers that companies are pulling to significantly enhance their performance include understanding, predicting, and interacting with customers; making information-based decisions; and performing job functions faster, better, and cheaper with digital automation and related robotics.

But the business has to be underpinned by the right structure before it can pull those levers and succeed. And if a company gets both its business model and its enterprise architecture right, the two would be mutually supportive. Companies with more-mature enterprise architectures view information technology (IT) as an asset from which they can reap continuous returns (figure 1).

**OPTIMIZING THE BUSINESS MODEL**

Digital transformation starts with determining and adopting the best business model depending on the model’s potential to integrate, standardize, and share
services. Massachusetts Institute of Technology's (MIT) Center for Information Systems Research (CISR) has identified four basic operating models.¹

- **Unification** business models generally sell the same types of goods or services to the same types of customers. They benefit from sharing information and standardizing processes across the organization.

- **Diversification** models are used typically by conglomerate organizations with varied business concepts that don't benefit much from sharing information or standardizing processes.

- **Coordination** models sell different products to the same customers, and they provide benefits through sharing information in specific circumstances, such as for cross-selling. They don't have as much need to standardize processes, which usually differ for different offerings.

- **Replication** businesses provide customers with similar products or services, so benefits accrue from standardizing processes but not so much from sharing information.

Once a company has established the right business model, it's ready to build the enterprise architecture needed to execute it and to adopt the IT engagement model that supports it.

Typically, four elements drive enterprise architecture:

- Core customers
- Integral business processes
- Shared data that drives business processes
- Linking of systems with good automation

Let's take a look at some examples.

**Unification: Delta Air Lines**

Delta provides the same products and services for similar customers. It has to share information about them and to standardize its processes across the organization. The management team defined the core processes and the data it needed to share, building a real-time so-called digital nervous system that shares information on a need-to-know basis, thereby ensuring a consistent customer experience.²

**Coordination: MetLife**

MetLife, like other financial services companies, has to offer unlimited products and services—ranging from insurance to savings—and without forcing standardization. It established an integration hub at the center of its architecture, providing both access to customer data through a portal and separate links to partners.³

**Replication: ING Direct**

ING Direct (now known as Capital One 360), which has 13 million banking customers and no branches, has to standardize key processes across the company and support them with automated technologies. Such standardization would bring cost efficiencies and enables the business to expand rapidly. The bank identified seven service categories and allows each country-based bank to manage its own customer data. Reuse of applications keeps operational costs low.⁴

**Diversification: Harbinger Group**

Harbinger Group (now known as HRG Group) has different concepts—including insurer Fidelity Life and oil and gas operator Compass Production—that

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⁴ Ross et al., *Enterprise Architecture as Strategy: Creating a Foundation for Business Execution*, 62-64.
have different customers, but they benefit from shared technologies and services. Sharing data centers, centralized vendor negotiations, and the telecommunications network, for example, bring standardization and economies of scale.\(^5\)

**Four stages of architecture maturity**

Once the management team makes sure it has the right business model and it agrees on an enterprise architecture framework, that architecture must be nurtured to complement the digital transformation. CISR research has identified four stages on that journey, with different expectations for performance and investment.

In the first stage, companies that want to expand before standardizing might focus on local business needs—for example, in local geographies—building on existing offerings and developing new ones. That makes sense for growing companies, but they need to know when to move on.

**Standardization** happens in stage two, which encompasses establishing common processes and cutting costs by consolidating technologies. Raytheon global chief information officer Rebecca Rhoads shrank administrative processes throughout the company, reducing 150 payroll systems to one, 28 e-mail systems to one, and cutting IT costs about 40%. In her words: “just brutal... huge mountains that needed to be moved.”\(^6\)

In stage three, companies optimize to win the benefits of standardization. They typically eliminate data redundancy, streamline core transaction processes, and develop a wider view of the business. For example, UPS has built its business around a single package database, which enables customers to track their deliveries. The company optimized its enterprise architecture with standardized processes to capture and track data.\(^7\)

By stage four, to expand rapidly and efficiently, a company can take advantage of the platform it has created. **Reuse** could be a plug-and-play capability, which enables the business to be agile and competitive in new markets. By this stage, IT is seen as an asset that generates return on its investment. As an example, Swiss Re first established businesses in local markets to meet the needs of its distributed client base, and then it developed localized processes and systems to accommodate specific market needs. After standardizing its processes and access to information, Swiss Re could address those needs while lowering IT costs. It consolidated 35 client management systems and 25 underwriting systems to create global systems and common processes.\(^8\)

In this way, companies mature toward having in place strong enterprise architectures that support the business model and growth strategies and that are able to compete in the new digital age. IT is connected to the business and runs like one in its own right. Standardizing processes means resources don’t get wasted on routine tasks but are freed up for investment in technologies that improve the business, such as customer service, supplier management, and systematic information sharing. The goal is to become modular so that optimized processes can be reused for winning new—but related—business opportunities.

**IN SUMMARY: THE DIGITAL BUSINESS MODEL**

Businesses must standardize and integrate operations when possible, and they must be flexible and nimble to progress because technological change is accelerating. According to MIT’s CISR, a successful digital strategy should focus on:

- **Customer engagement** that uses multiple channels to interact in consistent, personalized, convenient, and informed ways. And this should be business to business, not just business to customer.
- **Digitized support** and solutions for customers using products and services, which can establish future revenue streams beyond current sales
- A **digital operational backbone** that underpins the whole business

The coordination of activities and the synchronization of functions remain challenges for many companies, but those that have accomplished them are seeing big returns on their investments and efforts. A

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8. Cynthia M. Beath and Jeanne W. Ross, “Information and Transformation at Swiss Re: Maximizing Economic Value.” MIT Center
Digital transformation: business models supported by real-time enterprise architecture

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4 / Digital transformation: business models supported by real-time enterprise architecture