



I D C E X E C U T I V E I N S I G H T S

Digital Transformation: Are Malaysian Businesses Caught Between a Rock and a Hard Place?

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Within the last decade, Malaysian businesses have more than borne witness to the IT industry's shift to the 3rd Platform driven by cloud, big data and analytics, mobility and social technologies. They have ridden the wave as both consumers of services and as players in the ecosystem. While the current state of adoption is not as high and as prevalent compared to more mature countries in the Asia/Pacific region, evidence of its importance is clear in the shifting of budget discussions towards 3rd Platform IT spending. The silo adoption of 3rd Platform technologies by the early adopters in Malaysia reflects more of a knee-jerk reaction than a long-term investment outlook to create business innovation and value. IDC believes that leveraging 3rd Platform technologies and its associated innovation accelerators, such as the Internet of Things, will be fundamental in ensuring Malaysian businesses set new competitive benchmarks. This IDC Executive Insights takes a look at why and how Malaysian businesses will have to evolve as the landscape transforms.

Dealing with Disruption: Malaysia Business' Dilemma

Businesses face a barrage of factors which make it increasingly difficult to sustain their operations, let alone grow. The shifting and changing business landscape globally, regionally and locally will continue to drive Malaysian business to realign strategies to thrive in a digitally transformed marketplace.

■ A New Breed of Customers

Customer expectations are far from the old standard of one size fits all. In today's hyper converged world, customers are demanding a more personalized experience across various channels and in some instances, it is these very channels that allow a customer to decide if they will be apostles, mercenaries, defectors or a hostage – as described in Harvard's Apostle Model for Customer Loyalty. The very fabric of how customers intend to engage with businesses is changing on many different facets, and this new breed of customers and their associated demands and expectations will continue to challenge the status quo. A typically Malaysian business will now have to address both traditional customers as well as the rise of digital natives. According to the Malaysian Communications and Multimedia Commission, the broadband penetration rate per 100 household stands at 60.3% for Q1 of 2015. There is a clear disparity across the nation, with states in the central, southern and northern region having higher penetration rates compared to the rest. Compounding this disparity is Internet usage by different age groups, with 72% of Internet users aged under 35. It is this disparity that has prompted retailers such as Tesco Malaysia to launch its online store in order to meet the demands of both traditional consumers and digital natives.

While organizations are generally aware of the need to transform and to create an omni-channel experience for its customers, what has been evident in Malaysia is the lack of a more holistic approach to ensure that measures taken are not superficial in nature. Recent media reports highlight classic

examples of how some organizations (in this instance a local pharmaceutical retailer) take to Facebook to leverage on social efforts without the underlying framework to create a customer-first experience. IDC is of the opinion that organizations will need to not only understand the implications of the 3rd Platform but to also strategize how its adoption fits into the entire business culture and value chain. As Malaysian organizations address both a regional and global market, it will be imperative for the underlying framework to be solid, allowing for market expansion to run smoothly.

■ Hyper Competition

Even if customer demands remain status quo, the competition front on its own is also a major challenge for businesses. Not only are competitors evolving by transforming their business operations, the ecosystem is changing at such a rapid pace that incumbents are now challenged by industry disruptors. In fact, IDC is of the opinion that the 3rd Platform and the associated innovation accelerators will bring about nothing less than the transformation of every single industry on this planet. The current landscape is but the tip of the iceberg. In Malaysia alone, the evidence is clear, with MyTeksi and Uber disrupting the transportation industry to the point that taxi unions and the government are finding ways to intervene. Airbnb is another classic example in which the barrier to entry in the hospitality industry has been lowered significantly to a point where competition is mushrooming throughout the country.

This new era of competition is also paving the way for strategic partnerships. With the growing number of small and medium-sized enterprises (SMEs) in Malaysia, RHB group has formed an alliance with Ebizu to provide simplified business solution to Malaysian SMEs. Through this partnership Ebizu leverages on its end-to-end retail solution to enable SMEs to connect with the always-connected consumers on the go and improves customer loyalty and retention over time. In turn, RHB group's SME platform now not only addresses the financial aspect in terms of interaction with clients but on the technology side that supports the growth of SMEs.

Malaysia's largest manufacturer of automobiles, PROTON, is another key example of the need to leverage on technology in a hyper competitive landscape. The Malaysian car manufacturer, leverages on digital prototyping to reduce the total time spent on car design by 20% while allowing design teams to work on multiple projects simultaneously. With speed to market being a driver with a host of moving parts, the shortened timeline from about 18–24 months from concept to design allows for PROTON to compete more effectively.

The healthcare industry in Malaysia is also a key mover in the adoption of 3rd Platform technologies. KPJ Healthcare Bhd, the biggest private healthcare group in Malaysia, expects all its hospitals to be running on a cloud infrastructure by the end of 2015. The healthcare provider is a prime example of an organization that looks at "investing to save" and expects up to 30%–40% of its IT spending in the long-term.

It is this inherent 3rd Platform injection into the DNA of businesses and customers that has sandwiched those that are caught between a rock and a hard place. While the awareness of disruption is clear, the key to thrive is in the development and follow through of a holistic strategy that addresses the evolving state of the business marketplace. Business leaders are challenged to move their businesses to the next level, which is digital business transformation, employing digital technologies coupled with organizational, operational and business model innovation to create new ways of operating and growing businesses.

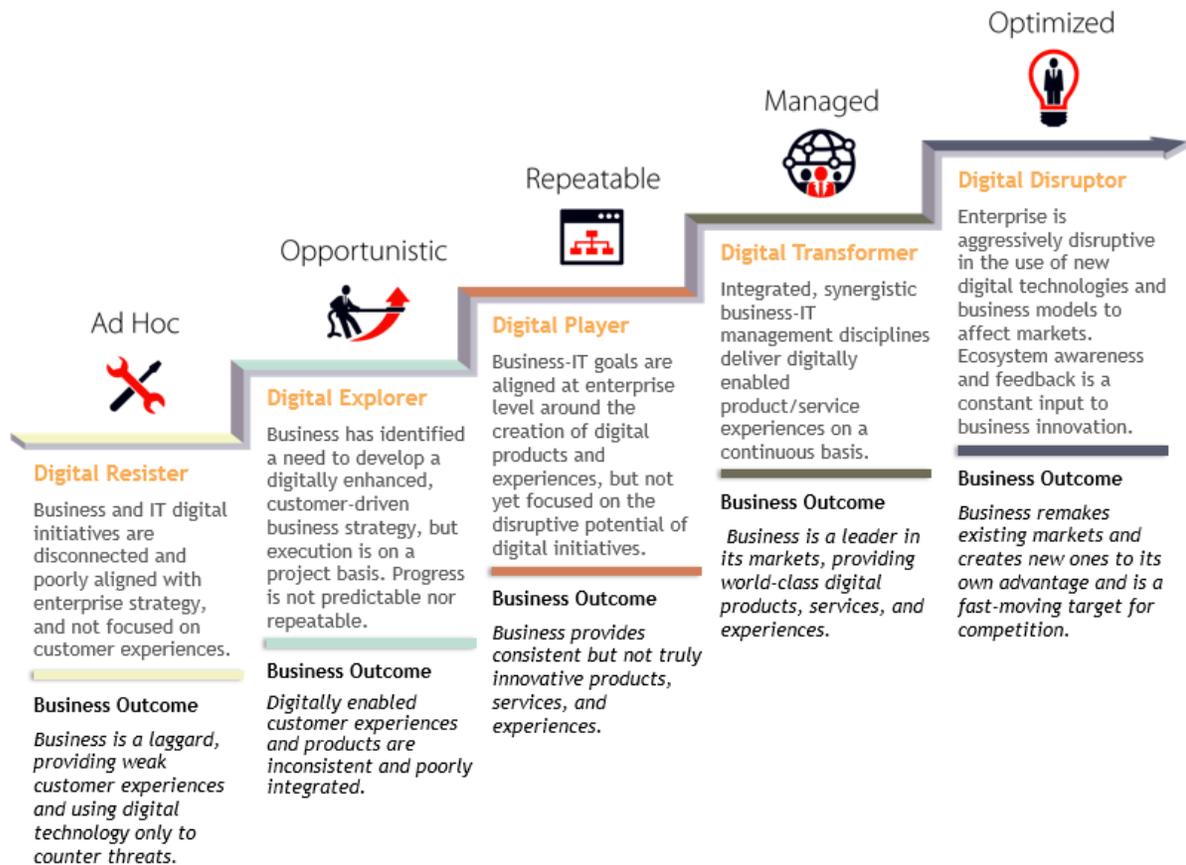
Digital Transformation: Driving Change with New Competencies

Businesses considering digital transformation (DX) will need to steer away from the mindset that being digitally transformed is a state that can be achieved and retained by implementing static measures. The inverse is actually true whereby it is a constant state of fluidity and that it is not one-dimensional. This is evident in the case of the transportation industry in Malaysia with MyTeksi as an example. In response to Uber, it launched an app competing head on with Uber's model that has now put the company at loggerheads with its current MyTeksi fleet. This clearly showcases that there is no clearly defined formula to succeed in this new marketplace. However, what is crystal clear is the need to think and act beyond the traditional boundaries. IDC sees the digital transformation capabilities of business as measured on five dimensions:

- **Leadership DX** — this set of disciplines enables businesses to develop the vision for digital transformation that are optimized to deliver value to partners, customers and employees. Leadership DX requires that leaders become more sophisticated in their knowledge of the enterprise ecosystem, including the digital accessibility of markets, customers and service providers, in order to anticipate and develop product and operational innovations that extend market share and increase revenue by creating shared digital experiences that serve the needs of mobile, socially connected and digitally transformed customers and partners.
- **Omni-Experience DX** — this dimension describes an omnipresent and multidimensional ecosystem approach to continually amplify experience excellence for products and/or services. Omni-Experience includes the infinite combination of interactive experiences between digitally enabled businesses and their customers, partners, employees and things that are transforming the way people communicate with each other and with the business products and services that are increasingly created to meet unique and individualized demand.
- **WorkSource DX** — this dimension covers the evolution of the way that businesses will achieve business objectives by effective sourcing, deployment, and integration of internal (full-time and part-time employees) and external (contract, freelance, partner) resources. Transformation and optimization are realized by adopting strategies that leverage digital interactions and collaboration, connections, relationships and tools, including machine intelligence.
- **Operating Model DX** — this dimension describes the ability to make business operations more responsive and effective by leveraging digitally connected products/services, assets, people and trading partners. Maturity in Operating Model DX enables the enterprise to spend more of its time and energy focused on developing new products and services by integrating the business' external digital connections to its markets and suppliers with the internal digital processes and projects that are directly impacted by customer requirements and ecosystem opportunities.
- **Information DX** — this looks at the ability of an enterprise in extracting and developing the value and utility of information relative to customers, markets, transactions, services, products, physical assets and business experiences.

IDC has developed the DX MaturityScape to help businesses cope with digital transformation. As depicted in Figure 1, it is important for a business to understand where it is at on the maturity scale and what can be done incrementally to compete in this new marketplace.

Figure 1



Source: IDC, 2015

Digital Transformation is the Start of a Thousand-Mile journey

Malaysian businesses will need to make a stand as to how they will address the new and changing marketplace. While some industries may currently feel immune to and insulated from disruption, it may prove useful to view this as, perhaps, not the settled and final state. Industry leaders or incumbents cannot afford to rest on their laurels, as seen historically with Fortune 500 companies. By the end of 2014, 89% of the original list of companies drawn up in the year 1955 were no longer on the list. While each company may have a different reason as to why they are no longer on the list, the one thing that remains clear at this point is that the business leaders of Malaysia today may not necessarily be the same tomorrow. Closer to home, the ASEAN Economic Community (AEC) seeks to establish further economic integration of ASEAN nations by 2015. AEC envisages four key characteristics: single market and production base, competitive economic region, equitable economic development and integration into the global economy. With these market forces at Malaysia's doorstep, this thousand-mile journey is, in IDC's opinion, an opportunity for digital transformation, and at the end of the day, anyone's game.

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