



Becoming an On Demand Business:  
Innovation Breaks New Ground

**White Paper**

# **Becoming an On Demand Business: Innovation Breaks New Ground**

February 2005

**ON DEMAND BUSINESS™**

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**Introduction**

Innovative approaches to building an On Demand Business can directly improve operational performance – enhancing employee productivity, reducing cycle time or elevating customer retention rates. These operational performance improvements, in turn can, yield significant improvements in financial performance across multiple dimensions – including earnings growth, cost reduction and asset leverage.

Yet, these breakthroughs in business performance, can only come from significant innovation – traditional tools and ways of thinking are no longer sufficient to deliver the level of business performance required by today’s demanding markets. Whereas technological upgrades or strategic shifts alone once enabled companies to leapfrog competition, it’s now the unique combination of business insight and technological innovation that will break new ground. On Demand Business provides a powerful new lens that can shape and drive such innovation, addressing business process end-to end and beyond the four walls of the company. For example, the concept of an On Demand Business helps an executive evaluate their business in the broader ecosystem of its partners and creatively unite business model and technology opportunities for a competitive advantage.

To understand how companies with more advanced capabilities for On Demand Business are able to generate more rapid improvement in financial performance, it is helpful to understand the definition of On Demand Business. An On Demand Business is “an enterprise whose business processes – integrated end-to-end across the company and with key partners, suppliers and customers – can respond with flexibility and speed to any customer demand, market opportunity or external threat.”

The transformation to an On Demand Business happens in stages, delivering both near and long term business performance effects. The path a company chooses to build these capabilities varies, depending upon the company, its industry, and its maturity. For example, retailers focus on more effectively personalizing the shopping experience while financial service providers seek to integrate multiple channels to serve the same customer. Every company’s transition will be different, in terms of where and how they start building capabilities and the ultimate path they pursue.

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**Highlights**

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***An On Demand Business is “an enterprise whose business processes – integrated end-to-end across the company and with key partners, suppliers and customers – can respond with flexibility and speed to any customer demand, market opportunity or external threat.”***

***A new study by IBM® shows that when compared to others in their industry sectors, companies that have gone the farthest in developing their On Demand Business capabilities have on average, experienced superior 3 year growth in key areas of business performance.***

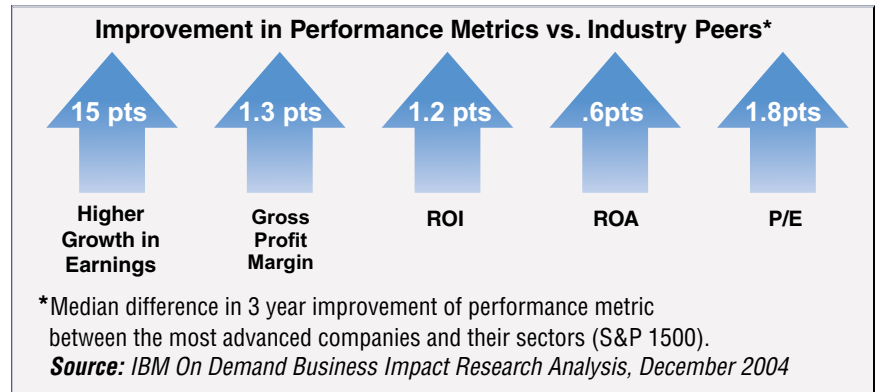
***Companies with advanced On Demand Business capabilities:***

- Integrate internally (process & IT across units)***
- Integrate externally (supplies, partners, customers)***
- Leverage technology to make business processes dynamic, responsive, and flexible***

Bottom line, the capabilities for On Demand Business are no longer an option – they have become a pre-requisite for competing effectively in the marketplace. Companies that begin early to deepen their capabilities for On Demand Business, can improve their performance more rapidly than other companies in their industry, creating a growing performance advantage relative to companies that move more slowly to build these capabilities.

**Changing the game for business**

Creating new sources of value ahead of competitors is the key to capturing value. A recent study conducted by IBM Research confirms that companies with a head-start in building capabilities for On Demand Business, enjoy superior performance. Using standardized metrics to assess the level of On Demand Business adoption, this study identified 30 U.S. companies that have advanced farthest in developing their capabilities for On Demand Business. As Exhibit 1 demonstrates, companies with the most advanced capabilities for On Demand Business outperformed their peers over a three year period in the relative growth of a variety of performance metrics - and the differences were often substantial. Not only were these companies leading adopters of the On Demand Business strategy, but they outperformed their peers in profitability improvements, efficiency improvements and in the market.



**Exhibit 1**

In terms of profitability, the median difference in the growth of earnings (EBIT) of companies with more advanced capabilities for On Demand Business relative to industry peers was 15 percentage points. In other words, if a sector grew earnings by 20 percent, then companies with the most advanced capabilities for On Demand Business on average grew earnings

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**Highlights**

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**Avnet Case Study**

**Challenge:**

With competition among IT distributors stiffening, Avnet needed to strengthen its relationships with suppliers and resellers by giving them the tools— value-added services – that help them stay ahead of the competition.

**Why Become an On Demand Business?:**

Avnet needed to deliver services and information to help its suppliers and resellers become more responsive, yet remain flexible enough to adapt to their existing processes.

**Solution:**

Avnet teamed up with IBM Business Consulting Services to create Channel Connection, a flexible, highly automated portal solution that provides suppliers and resellers with personalized, real-time information to optimize their decision-making.

**Key Benefits:**

- ROI of 360% in first year
- 37% increase in productivity for sales operations staff
- 30% increase in application development and support productivity
- 82% reduction in resellers' order cycle time, 85% reduction in supplier-side cycle time, 58% of reseller orders fully automated from end to end

**[Access full case study](#)**

by 35 percent. Similarly, companies with more advanced capabilities for On Demand Business improved gross profit margin 1.3 points better than their peers. This incremental improvement vis-à-vis their peers is no small gain to the bottom line. A single point gain in gross profit margin can add \$50 million to the bottom line of a company with \$5 billion in revenue.

Companies with advanced On Demand Business capabilities also outperformed their peers in return on investment (ROI) and return on assets (ROA) improvements. Over a three year period, the advanced companies enjoyed 1.2 points better improvement in ROI and .6 points better improvement in ROA. The incremental gain of 1.2 points in ROI means that these leading companies generated, on average, an additional \$12 million more profit generated for every \$1 billion investment relative to their peers. And the market recognized these improvements as well, as companies with more advanced On Demand Business capabilities enjoyed, on average, 1.8 points greater improvement in their price-to-earnings ratio.

Building capabilities for On Demand Business is a strategic imperative. Successful companies will measure their progress towards building capabilities for On Demand Business with explicit and ambitious operational performance milestones.

**Driving operational performance improvement**

Significant operating performance improvement is the first step to delivering lasting improvement in financial performance. By targeting various dimensions of operating performance, On Demand Business initiatives achieve impact quickly while at the same time creating a foundation for longer-term performance improvement.

As the following examples illustrate, operational improvement hinges upon a combination of business and technology innovation – creatively redefining relationships within and across enterprises and applying technology in innovative ways to support new types of business relationships.

**Reducing process cycle times**

Delays in processes can be deadly. Orders can be lost, factory lines shut down and product launches undermined by preemptive competitor moves.

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## Highlights

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### Travellex Case Study

**Challenge:**

Travellex found it harder to innovate – a key to its success – because over time it had acquired an increasingly complex and inflexible technology environment.

**Why Become an On Demand Business?:**

To sustain its competitive edge, Travellex needed to find a way to more rapidly develop and deliver new products and services to its customers.

**Solution:**

Travellex teamed up with IBM and IBM Business Partner Osmosis Integration to create a new highly open platform for the development and integration of its foreign exchange applications.

**Key Benefits:**

- Reusable software components projected to decrease application development costs and reduce cycle time by 30%
- Consolidation of application infrastructure expected to reduce application support costs by 20%
- More efficient architecture expected to reduce significantly transaction processing cycle time

[Access full case study](#)

As competition intensifies, executives are realizing that continued cycle time reduction requires more than internal integration – they must develop the capability to integrate more effectively with a broad range of business partners across multiple levels of the supply chain.

Avnet Partner Solutions understood this. As one of North America’s leading value-added distributors of enterprise computing solutions, storage, software and services, Avnet Partner Solutions provides a critical bridge between suppliers and thousands of resellers who, in turn, work directly with their customers. By shortening its own process cycle times, Avnet could deliver even more value to these business partners. At the same time, Avnet recognized that it had to adapt to the existing business processes of its partners. As Avnet’s CTO, Bill Chapman, observed, “We can’t expect our suppliers and resellers to turn their business processes upside down. Our role is to facilitate innovation, not impose it.”

To streamline its business operations, Avnet teamed up with IBM Business Consulting Services to create Channel Connection. This flexible, highly automated portal solution provided the foundation for significant operational performance improvement. On this platform, supplier and reseller activities trigger fully automated processes. With this more efficient process flow, Avnet has cut the time it takes to process reseller orders by 82 percent, while the cycle for processing upstream orders (placed by Avnet to suppliers) has fallen 85 percent.

### Introducing innovative products and services

Efficiency alone no longer ensures competitive success. Companies need to master techniques to increase the flow of innovative new products and services. Recently Travellex found it was facing this very issue. One of the biggest names in the global foreign exchange business, Travellex actually operates with only 6,000 employees worldwide. To support its aggressive expansion into business services, Travellex wanted to introduce innovative, yet easy-to-use services more quickly, especially for small and medium-sized businesses. Due to rapid growth, Travellex had acquired a diverse set of systems that were complex and expensive to maintain. As proprietary connections multiplied, performance went down and cycle times went up. Even more distressing, non-standard connections made it more difficult for smaller accounts, with limited IT resources, to use Travellex services.

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**Highlights**

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**Kookmin Bank Case Study**

**Challenge:**

Kookmin Bank found that its organizational complexity made a unified approach to its customers extremely difficult.

**Why Become an On Demand Business?:**

To become more responsive to its customers, Kookmin needed to “componentize” its business so that it could mobilize its resources effectively and eliminate duplication

**Solution:**

IBM Business Consulting Services helped Kookmin to reconfigure its organization into components, designed to operate independently regardless of location.

**Key Benefits:**

- Single, enterprise-wide view of the customer provides better, more efficient service
- Kookmin expects to save over \$250 million through elimination of duplicate business processes and organizational realignment
- In call center operations, Kookmin is able to reduce call handling times by 20%
- Kookmin expects to payback its investment in revamping call center operations within the first year after full implementation

**[Access full case study](#)**

To address this need, Travelex deployed a new, highly efficient application development framework to bring new services out of the door faster. By reusing core service applications like an exchange rate conversion engine across more specialized services, Travelex expects shorter, lower cost development cycles on the front end, as well as, lower application support burdens going forward. Because the framework produces “integration-ready” applications, Travelex further improves its speed to market by eliminating a major application development burden.

Peter Beuken, Head of IT for the Commercial Foreign Exchange business at Travelex, appreciates the business value of this new platform: “We see the new system as an enabler of future growth and continued innovation.” Travelex projects that new service introduction cycle times will drop by 30 percent and that application support costs will come down by 20 percent.

**Aligning resources more effectively**

If the On Demand Business lens can truly help you shape and drive business and technological innovation, then the Component Business Model provides the baseline setting and context to achieve those breakthroughs. IBM developed the Component Business Model diagnostic technique to help executives achieve greater resource alignment and build broader capabilities for On Demand Business. The experience of Kookmin Bank illustrates the power of this management technique.

Kookmin Bank, based in Seoul, Korea, is the largest Asian bank outside of Japan and China in terms of market capitalization, with over \$155 billion in assets. It seeks to be the primary distributor of financial services to its customers, regardless of product or vendor. To achieve this goal, Kookmin needed to “componentize” its business to eliminate duplication and make it easier to integrate its organizational resources to serve its customers. For example, individual channels in separate business units were using different marketing tactics, making a unified customer approach extremely difficult.

Working with IBM Business Consulting Services to apply the Component Business Model, Kookmin combined similar functions and improved organizational agility. Kookmin is now restructuring the organization into multi-functional business components, designed to operate independently, regardless of geographic location. Elimination of duplicate business processes will save over \$250 million in operating expenses.

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**BostonCoach Case Study**

**Challenge:**

Growing complexity of operations made it more difficult for BostonCoach’s Fleet Controllers to ensure optimal vehicle and driver utilization, limiting the potential for growth and profitability.

**Why Become an On Demand Business?:**

To speed decision-making and react to last-minute changes, BostonCoach needed to automate the gathering and processing of dispatch data.

**Solution:**

BostonCoach teamed with IBM to create a dispatch management system capable of sensing and responding to changing parameters in real-time.

**Key Benefits:**

- 10 to 20% increase in fleet utilization
- Able to increase revenue by up to 10% without additional cars or drivers
- Several million dollars in cost savings

[Access full case study](#)

**Increasing asset utilization**

Inefficient use of resources adds substantially to operating expense, often resulting in dissatisfied customers and frustrated employees. The experience of BostonCoach illustrates the broad business benefits of creative efforts to boost resource utilization.

BostonCoach is the second largest ground transportation business in the U.S., offering direct service in ten U.S. cities and operating in 450 other cities in North America, Europe and the Far East through affiliates. BostonCoach’s Fleet Controllers ensured vehicle and driver utilization but, as its operations expanded, the complexity of the operations exceeded the abilities of even the most skilled Fleet Controllers to balance all the variables. IBM’s business consultants partnering with the T.J. Watson Research Lab developed an automated state of the art Fleet Optimization System (FOS) for BostonCoach. The FOS provides real-time utilization data on drivers and coaches, capitalizing on Global Positioning System technology and customized mapping applications developed by IBM and its partners.

Using this system, BostonCoach generated up to a 20 percentage increase in vehicle fleet utilization, plus several million dollars in annual cost containment. In the highly competitive travel industry, this often makes the difference between a profitable business and money-losing operation. Fleet Controllers can now focus on improving service and customer satisfaction, generating more repeat business and growing revenue. With real-time monitoring capabilities, the company can adapt and optimize on a minute-by-minute basis to unexpected events like inclement weather, flight delays and accidents.

**Conclusion**

Each of these companies looked at their business and technology capabilities in new creative ways to drive breakthrough business innovation. Their experiences illustrate how companies can combine business and technological insight to achieve significant improvements in operational performance and in turn, drive more rapid improvement in overall financial performance. They are the leaders in On Demand Business adoption, and as a result are emerging as leaders among their peers.

Innovation and reinvention are now requirements in a climate of constant and unpredictable change.



John Hagel is a management consultant and author. He works with senior management of large enterprises around the world to shape business strategies and improve business performance. His experience includes senior management positions in technology businesses and sixteen years as a consultant with McKinsey & Co. He most recently is the author of Out of the Box, a book on the business implications of Web services technology. He is also the author of the best-selling business books, Net Gain and Net Worth.

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02-05  
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