The Digital Transformation from an IT Service Provider's Perspective

A New Product Perception

The digital transformation and a new product perception are currently shaping the market for IT service providers, as well as for almost every industry whose business requires IT in some form. Business Technology talked to Stephan Müller and Christian Meder, Managing Director and CTO of inovex respectively, about the effects of the digital transformation. inovex GmbH is an independent IT service provider based in southern Germany. Over the past 15 years, the company has grown from 4 employees to 170 and its broad-based technological expertise places it among digital development's hidden champions.

Business Technology: What is the digital transformation? What does it mean for your customers who have to go along with it? Particularly, though, what does it mean for the IT departments which have, perhaps, been tucked away in basements until now, or for service providers who simply did what their customers thought they wanted? What's at the heart of the digital transformation – where is the innovation, what's the new thing?

Stephan Müller: The digital transformation has clearly changed IT's role. Previously, IT was just one element of a company, one which assisted in creating products. In many companies, IT was typically a cost centre – often, it was part of the financial department – and its only task was to keep the company (or its systems) running. It didn't need to be innovative. And that's one of the problems we're experiencing with companies today. When we discuss IT budgets, the conversation almost always revolves around maintenance budgets. Very rarely do we discuss innovation budgets. The digital transformation now requires that companies view IT as a business enabler. They need to consider how IT can help revive potentially backsliding business models or develop completely new ones. The answer to this question has both technological and cultural aspects.

Christian Meder: We come from southern Germany, where the automotive industry is the classic example. For a long time, we heard that you can't build cars with IT, that it's not a core competency. This changed in 2014 – if not sooner. Now everyone's talking about connected cars and how they can use IT to distinguish themselves from their competitors. It's become clear to the automotive industry that the topic of

infotainment systems is an important differentiation characteristic and selection criterion for the younger generation.

"We have to decide how and where we can create scope for innovative topics." *Stephan Müller, Managing Director at inovex GmbH*

They have also realised that they are not as far ahead as they should be. This shift in awareness shows very clearly that the focus has changed. I believe that, from a technological point of view, the problem is that, around ten years ago, companies only had to make their mark in one area, and that was the web. Everyone was talking about the web and about e-commerce and everyone had to improve in those areas. Now, though, a lot of different topics are highly significant. The web is still a huge topic – there's often a gap several miles wide between expectations and what's actually delivered. Now, though, you've also got mobile, big data, smart devices, and so on. The challenge for IT lies in being a facilitator in five or six fields simultaneously, as well as suddenly becoming innovative – despite the fact that for the last ten years it's been considered just a cost centre, rather than a department which contributes to the core product. Of course, that makes it difficult to be part of the product and to drive innovation, as you can imagine.

Business Technology: How do companies and IT have to change when innovation suddenly becomes the focus? Can you plan for it? Do you have to learn it? How do you finance that, and who sets the cultural shift in motion anyway?

Stephan Müller: At the moment, companies are still trying to do everything themselves: they're really trying to model all their internal processes using IT. In the near future, these companies need to ask themselves which core processes or core competencies they want to keep in-house, and which are more of a commodity and can be outsourced. This, of course, is where that evil word "cloud" comes up again. Nowadays, specialist departments often need (and want) to be more innovative, but IT puts the brakes on them, because some things just can't be developed without scope for innovation. In this case, it is particularly important to consider how and where scope for innovation can be created throughout the entire company.

The second biggest topic is offshoring. Many companies have outsourced their IT abroad – that works very well if you have fixed requirements and you're happy to wait a year for your software. Of course, in an agile environment – like the one we have now, for example – it doesn't work. It's difficult to get a mobile app developed offshore. Companies now have to discover how to create scope for innovation. Some companies build labs to do this. For example, Volkswagen has created a big data lab which focuses on these topics separately from the main IT department. That approach is certainly a good first step, but more will have to be done in the medium term. It's also difficult to implement without guidance from above, because it's not just cosmetic aspects which are affected. The digital transformation is a paradigm shift, which means that many companies must completely reposition themselves – at least in a number of areas. In a lot of companies, certainly, IT is helping to drive this development, but it's very difficult to do without guidance from management. The Chairman of the Board of one of the biggest German automotive suppliers made a statement which I consider extremely innovative. He said, "The gold of the past was metal. The gold of the future is information." He's currently realigning all the departments in his company according to this principle, but the process will certainly take several more years. If change is being driven from above, as it is in this case, the operational sectors are in a better position. They receive the necessary funds and can, of course, act more freely. All change involves resistance, but resistance can be dissolved faster using this method.

Christian Meder: Even now that there's officially a need for innovative IT, as well as a certain pressure from the market, it's not always going to be possible to meet that need. The American IT giants are ahead of the game in many areas. They're driving the process – we always compare everything to Apple, Amazon or Google. One example is the way the German car industry was given a shake-up by Google's self-driving car. At the moment, a company which, when it comes down to it, has absolutely nothing to do with the automotive industry, is occupying its marketing and technology sectors relatively strongly. In contrast, we hear much less from the German automotive companies, despite the fact that they're working with extremely advanced technology. This creates pressure, and companies will need external help and consolidated resources to react to it.

"The challenge for IT now is to become a facilitator in five or six fields simultaneously while being innovative at the same time."
Christian Meder, CTO of inovex GmbH

Companies have to understand that the first step has got to be investment. They won't see savings until we get into the long term. All things considered, it's still a tricky subject. Of course, companies must also systematically check which IT systems are not part of their core business and therefore don't need to be run in-house. Which systems can they get from the cloud instead? By taking this approach, companies in the automotive arena can focus on topics like connected cars. After all, they're part of their core business. It's just not feasible to train a couple of people and then expect them to handle everything. You can't just make people faster.

Business Technology: Do the digital transformation and innovation also affect the way people perceive products?

Christian Meder: Yes, I believe people's product perceptions have fundamentally changed. In the IT field, in particular, today's products are very strongly iterated. Many companies make sure that the products they're launching on the market, whether they're software or hardware, are designed to be updated, right from the very outset. This is definitely true when it comes to smartphones. Software updates mean that, in two or three years, you've got a completely different phone – but you're still using the same hardware. The product perception behind this is that nothing is finished, everything is iterated. Products change and improve. It's not just the automotive industry that has a problem with this. When it comes to infotainment systems, we used to believe that you built them once, and perhaps you provided a CD of updated maps at some point, but customers still had one and the same product. This view has become outdated. Today's users expect a revised look and feel, plus improved functions, every one to two years. This product perception seems to be currently establishing itself – with customers, at any rate. Implicitly, though, it means that we need to find a different way of working. Today, people work agilely in iterations. They test things, they take things back out. This must be technically feasible and, of course, when designing these products, it must be planned from the beginning.

Even the newest generations of Xbox and PlayStation didn't have all their advertised functions when they were first launched on the market, and they're still selling like hot cakes. A majority of these IT innovations are currently driven by the end-user. We notice that in our work, too.

Stephan Müller: Of course, a lot depends on how easy the updates are to install. People want just to push a button and have everything done, or even to have updates applied automatically – because that's how they get something new easily. If they have to drive to a retailer first, or put a CD in, the acceptance rate isn't so high. This development is strongly driven by personal technology, occasioned by the smartphone and tablet boom. At the same time, a kind of asynchronous communication is establishing itself. It's a new way to consume and distribute information, and it's still unusual for companies. Nowadays, industry customers are also demanding a similar user experience to the one they get at home on their smartphones or tablets. That's how new business ideas are born, and although the digital world is making life difficult for established companies in some ways, there's no getting away from it. The biggest change caused by the digital transformation is in the way we want to work, and in the way we will work in the future. This is a deciding factor in the German "war for talents": money is certainly a factor in attracting good people, but it's far from the only one. Instead, companies have to make sure that their offerings fulfil their employees' personal expectations.

Business Technology: How are you positioning yourself in this environment as a strong IT service provider and SME? Do you need to change your mindset, too?

Stephan Müller: Half of the customers in our customer portfolio are traditional industrial companies. The other half are companies in the digital milieu. These also include several startups for which we handle technology – they come to us with a business idea and appropriate funding and we ultimately build the technology for them. In the enterprise field, the majority of our customers have seen the writing on the wall and are actively considering their position in this wave of digitisation. Frequently, they begin implementing new ideas themselves and then they realise that they don't actually have enough staff. In many cases, they also lack knowledge of the environment. We know this from our own experience: we've been working with big

data since 2009. Our whole first year, we didn't get a single big data contract, but we remained convinced by our idea. A lot of people were interested, but ultimately no-one signed on the dotted line. Big data is now one of our strongest fields. Since then, we've constantly been asking ourselves which direction the digital transformation is heading in, and where we can specialise. Now the circle's closing – there are absolutely large companies, as well as SMEs, which are very innovative in many fields. Our customer portfolio contains a good mixture of both.

Christian Meder: At this point, I would like to add that we had some difficulties in the past in positioning ourselves on the market in a way our customers could understand. Due to our varied business fields – for example, we do big data, Java and .NET – we couldn't just be given a label, something like, "You're an SAP shop," or, "You do Enterprise and Java." We've never specialised in any particular topic. We do web and mobile, and we do them on different platforms. We work iteratively, bridging technology gaps, and we're active in the big data environment, which, in turn, is closely linked to the Internet of Things and different devices. Because our employees work closely together on all these topics, now this all makes sense in the era of digital transformation. Even five years ago, we were constantly having to explain our concept. Now, our customers are delighted to be able to get all their services from us. They're also happy that they can continue to depend on us if a project changes direction, or a product needs to be developed further.

Business Technology: What has changed internally for you as a company? After all, you've grown from two to 199 employees over the past 15 years. That makes you part of the transformation.

Stephan Müller: When you start small, it's like working in a family business. Everyone knows everything, everything's very dynamic. Preserving those flat, agile hierarchies as the company grows is a real challenge. If you're funded independently, a lot hinges on your financial means – ultimately you have to demonstrate your growth and the agility of your culture through your projects. But we've actually managed very well. We regularly get to a point where we stop and consider how we should position ourselves for the next phase of growth. When it comes down to it, we're still like a small, family business, and we're trying to preserve that structure. It's worked very well so far.

Business Technology: Thank you very much for the interview!