



Digital Transformation: How Technology is Reshaping Traditional Business Models

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Abstract

Digital transformation has become a dominant trend in the business world in recent years. The rapid development of information and communication technology has enabled organizations to change the way they operate, interact with customers, and compete in the market. This research aims to analyze the impact of digital transformation on business models and competitive advantage. This research is a literature review that uses a qualitative approach, which implies that data will be analyzed and interpreted using information and text obtained from various sources. The study results show that in the ongoing era of digital transformation, its impact on business models and competitive advantage is an aspect that cannot be ignored. This digital transformation has changed the fundamentals of how organizations operate and interact with customers, and how they can win the competition in an increasingly fierce market. Digital transformation has brought about a significant business paradigm shift. Today, more organizations are integrating digital technology as an integral part of their business model. It is no longer an option, but a necessity to maintain relevance and competitiveness in the market.

Keywords: Digital Transformation, Traditional Business Model, Communication Technology, Digital Technology, Organizational Change

INTRODUCTION

In recent years, the phenomenon of digital transformation has risen to prominence within the realm of business. This transformative process has been greatly facilitated by the swift and remarkable progress witnessed in the fields of information technology and communication. These advancements have, in turn, empowered organizations to undergo profound changes in the



fundamental fabric of their operations, customer interactions, and competitive strategies within the market landscape. It is imperative to recognize that digital transformation is no longer merely an option; rather, it has evolved into an indispensable prerequisite. It stands as a pivotal determinant in the cultivation of sustainable business models and the attainment of a distinct competitive edge in the contemporary digital epoch (Geissdoerfer et al., 2018). Within the scope of this investigation, the primary objective is to delve into a comprehensive exploration of the far-reaching effects engendered by digital transformation upon the intricate domains of an organization's business model and its competitive advantages.

The advent of digital transformation represents a watershed moment in the business environment, precipitating a tectonic shift away from traditional models towards those that are markedly technology-centric (Verhoef et al., 2021). Enterprises that skillfully navigate the terrain of digital transformation are poised to harvest a multitude of advantages. These encompass the augmentation of operational efficiency, the substantial curtailment of production costs, and the swift expeditiousness in bringing products or services to market. It is worth noting that, in select cases, digital transformation has the capacity to serve as the catalyst for profound and sweeping transformations that redefine the very essence of how business is conducted. Digital transformation has opened up new avenues for organizations to forge closer connections with their customers. Leveraging social media, mobile applications, and various digital platforms, businesses can delve into the intricacies of customer preferences, gather instantaneous feedback, and deliver highly personalized services (Sundaram, 2017). This capability serves to fortify customer relationships and lays the groundwork for burgeoning business growth opportunities. Through these digital touchpoints, organizations not only gain valuable insights into their customers' needs but also foster an environment where customer engagement and loyalty flourish, ultimately driving the expansion and diversification of their business endeavors.

Competitive advantage in the digital era is often intricately tied to an organization's ability to swiftly and effectively embrace new technologies (Faraj & Leonardi, 2022). Businesses that excel in seamlessly integrating cutting-edge technology into their business models stand poised to capture market share more rapidly than their competitors. This advantage extends beyond the products or services offered; it encompasses the manner in which businesses operate, including the establishment of more efficient and flexible internal processes (Thompson et al., 2019). In this context, competitive advantage is not solely a product of innovation but also stems from the transformation of operational paradigms, enabling organizations to navigate the evolving digital landscape with agility and foresight.

Digital transformation has also exerted a profound influence on consumer behavior. Modern consumers exhibit a penchant for seeking product or service information online, engaging in price comparisons, and perusing reviews before arriving at purchase decisions (Chen et al., 2022). Consequently, businesses must astutely acknowledge these shifting consumer dynamics and recalibrate their marketing strategies to remain pertinent in this evolving landscape. Recognizing that consumers now possess unprecedented access to information and have come to expect seamless digital interactions, enterprises must not only adapt but also anticipate these preferences, thus ensuring the continued resonance and effectiveness of their marketing endeavors.



While digital transformation undoubtedly presents a plethora of benefits, it is accompanied by a multifaceted array of challenges and associated risks. Among these challenges, we find the imperative concerns of data security, safeguarding customer privacy, and navigating the ever-evolving landscape of technological uncertainty. It is imperative for organizations to proactively strategize and implement measures to effectively mitigate and address these risks as they embark on their journey of embracing digital transformation.

By comprehending the impact of digital transformation on business models and competitive advantages, organizations can develop superior strategies to confront these changes. This research will delve deeper into how companies across diverse industries have integrated digital technology into their business models, its implications on competitive advantages, and effective strategies for addressing the associated challenges and risks. Consequently, this study will provide invaluable insights for organizations seeking to remain relevant and competitive in this digital era.

DIGITAL TRANSFORMATION

Digital transformation refers to the fundamental changes in how organizations or businesses use digital technology to alter the way they operate, interact with customers, and achieve their goals (Kraus et al., 2022). It is a strategic effort to leverage modern information and communication technology to enhance efficiency, innovation, and overall performance of an entity, be it a company, government, or non-profit organization (Zeng et al., 2020). Here are some key points that elucidate the concept of digital transformation:

1. **Adoption of Digital Technology:** Digital transformation involves the adoption of digital technologies such as cloud computing, big data, artificial intelligence, the Internet of Things (IoT), data analytics, and various modern applications and software. Organizations typically leverage these technologies to improve business processes, collect and analyze data, and enhance customer services.
2. **Change in Business Processes:** Digital transformation often necessitates a change in traditional business processes. Organizations need to revise or even replace old processes with more efficient, automated, and technology-integrated ones. This can involve automating routine tasks, using data analytics for decision-making, or establishing more efficient supply chains.
3. **Customer Experience:** Digital transformation often focuses on enhancing the customer experience. Organizations strive to provide services that are more personalized, fast, and easily accessible through digital platforms like websites, mobile apps, and social media. The use of customer data and behavioral analysis becomes crucial in achieving this goal.
4. **Innovation and Flexibility:** Digital transformation drives innovation in products, services, and business models. Successful organizations in digital transformation are often more flexible in adopting changes and mastering new technologies. They can also collaborate with business partners or external parties to create more innovative solutions.



5. **Security and Privacy:** In the effort to harness digital technology, organizations must also pay attention to data security and customer privacy issues. Data protection and compliance with relevant regulations become essential parts of digital transformation.
6. **Change Management:** Digital transformation often involves a cultural shift within an organization, where employees need to adapt to new technologies and new ways of operating. Effective change management becomes key to the success of this transformation.

Digital transformation is not merely about adopting technology but also about changing perspectives and ways of thinking in running a business. Organizations that successfully undergo digital transformation can gain a competitive advantage, improve efficiency, and stay at the forefront of ongoing changes in the business and technology landscape.

BUSINESS MODEL

A business model is a framework that describes how an organization plans to create, deliver, and capture value from the products or services they offer to customers or stakeholders (Peric et al., 2017). The business model explains how a company generates revenue, allocates resources, and conducts its business operations (Kusumasari, 2015). It is a way to understand how an entity creates value and sustains its business activities over time. Here are some key elements that encompass the concept of a business model:

1. **Customer Value:** The business model defines the value offered to customers or stakeholders. This can include physical products, services, or a combination of both. The business model should explain how this value meets the needs or solves the problems of customers.
2. **Revenue Streams:** The business model outlines the sources of revenue for the company. This can come from direct sales of products or services, subscriptions, advertising, licensing, or other revenue sources.
3. **Cost Structure:** The business model also includes the cost structure required to operate the business. This encompasses production costs, operational expenses, marketing costs, distribution costs, and more. Determining the cost structure is vital for understanding business profitability.
4. **Resources and Partnerships:** The business model can involve the resources needed, such as workforce, technology, physical assets, and other resources. It may also encompass partnerships or collaborations with other organizations to expand reach or enhance value.
5. **Distribution Channels:** How products or services are delivered to customers is an essential part of the business model. This includes physical distribution, digital distribution, and marketing strategies.
6. **Competitive Advantage:** The business model should consider how the company will maintain a competitive edge. This can involve competitive pricing, product innovation, unique customer experiences, or other factors that differentiate the company from competitors.
7. **Adaptation of Value:** The business model should also describe how the company plans to continuously adapt and evolve over time. This may involve changes in product strategy, target markets, or technology adoption.



Business models can vary significantly depending on the type of business, industry, and the company's objectives. It serves as a powerful tool for planning, managing, and measuring business performance. By understanding the business model thoroughly, companies can identify growth opportunities, address challenges, and optimize how they create and extract value in an ever-changing business environment.

COMPETITIVE ADVANTAGE

Competitive advantage refers to the unique attributes, strategies, or assets that an organization or business possesses, enabling them to outperform competitors in a specific market (Farida & Setiawan, 2022). It is what makes a company more efficient, effective, or attractive to customers compared to its rivals. Competitive advantage is a key factor in achieving and sustaining a strong position in a competitive marketplace. Here are some key points that illuminate the concept of competitive advantage:

1. **Uniqueness and Distinctiveness:** Competitive advantage must create a tangible difference between a company and its competitors. This difference can be in the form of unique products, innovative technology, efficient processes, or exceptional customer service.
2. **Sustainability:** A strong competitive advantage is one that can be sustained over the long term. It should not be easily replicated or surpassed by competitors. Strategies or assets that are difficult to imitate or substitute contribute to sustainability.
3. **Value Creation for Customers:** Competitive advantage should not only benefit the company internally but also provide added value to customers. This could involve better products, competitive pricing, faster delivery, or superior customer experiences.
4. **Enhanced Profitability:** Competitive advantage should enable a company to achieve higher revenues or lower costs, resulting in improved profitability. It can involve setting higher prices or reducing production costs, leading to better profit margins.
5. **Identifiability and Understanding:** Competitive advantage should be identifiable and easily understood by customers, stakeholders, and even employees. It helps build a strong brand image and communicates the value offered by the company.
6. **External and Internal Factors:** Competitive advantage can stem from external factors like market conditions, regulations, or resources, as well as internal factors such as technology, expertise, or strategic positioning.
7. **Market Dynamics:** Competitive advantage needs to adapt to changing market dynamics, customer preferences, and competitive pressures. Continuously evolving strategies and capabilities are important.

Competitive advantage plays a pivotal role in distinguishing successful companies from others. It can drive growth, market share, and profitability, making it a central concept in business strategy. Organizations must regularly assess their competitive advantage, adapt to market changes, and invest in strategies or assets that strengthen their competitive position. In essence, competitive advantage is a cornerstone of sustained success in the business world.



RESEARCH METHODOLOGY

This research constitutes a comprehensive qualitative literature review that aims to systematically aggregate, assess, and synthesize the extant body of knowledge about the impact of digital transformation on business models and competitive advantages. The data acquisition process encompasses a wide array of sources, including scholarly journals, books, official documents, and articles, spanning the timeframe from 2000 to 2023. By employing a qualitative methodology, we endeavor to elucidate intricate subjects, consider multiple perspectives, and discern recurring patterns within the literature. The qualitative approach adopted in this study allows us to delve deeply into the subject matter, thereby facilitating a nuanced understanding of the multifaceted dimensions of digital transformation's effects on businesses and their competitive edge. Furthermore, this method allows us to critically assess the credibility and reliability of the various information sources under scrutiny. It is worth noting that, like any research, this study has its inherent limitations, which we duly acknowledge and address in our analysis. Ultimately, the overarching objective of this research is to furnish a comprehensive and holistic overview of the literature on the impact of digital transformation on business models and competitive advantages. Moreover, we aim to provide valuable insights and recommendations that can inform and guide future research endeavors in this dynamic and evolving field of study.

ANALYSIS AND DISCUSSIONS

Digital transformation is a significant change that has completely reshaped the landscape of modern business. With this transformation, companies undergo a profound shift in various aspects of their operations, their interactions with customers, and their competition in the market. In this deeper analysis, we will elaborate on how this digital transformation has had a tremendous impact on companies' business models and created significant competitive advantages for them.

Understanding Digital Transformation

At the initial stage, we need to gain a deeper understanding of the concept of digital transformation itself. Digital transformation can be defined as a series of processes in which organizations embrace digital technology to fundamentally change their business models, redesigning their operational processes, and delivering superior experiences to customers (Stalmachova et al., 2021). It should be emphasized that digital transformation is not solely about adopting new technologies but also about integrating them comprehensively and effectively into all layers and strategic perspectives of the company. In other words, it is a holistic change that involves shifts in the corporate culture, governance, and long-term strategies to achieve better business goals in this digital era.

Innovation and Product Development

One of the primary implications that arise from digital transformation is the extraordinary potential for innovation in various aspects of products and services. Companies have the opportunity to develop products and services that are more suitable and relevant to customer needs by leveraging



the latest technologies. For example, through the development of Internet of Things (IoT)-based products, which enable everyday objects to be digitally connected and provide valuable data for analysis, companies can improve efficiency, security, and convenience. Additionally, through the launch of innovative mobile applications, companies can enhance their interactions and engagement with customers, create deeper and more personalized experiences, and improve customer retention. All of this opens the door to new opportunities for business growth. By innovating in their products and services, companies can expand their market share, attract new customers, and retain existing ones. This can also lead to increased competitiveness and the company's position in the market, as companies that can quickly adapt to technological changes and customer demands will have a clear advantage in the ever-changing digital era. Thus, digital transformation is not only about following trends but also about creating new opportunities that can drive long-term growth and success for companies.

Optimizing Business Processes

In addition to the positive impacts mentioned earlier, digital transformation also brings significant benefits in terms of optimizing business processes. By implementing automation in various operations, companies can achieve various strategically important advantages. One of them is the reduction of operational costs, as reducing human involvement in routine tasks allows companies to save labor costs and eliminate the risk of human errors. Beyond just efficiency, optimizing business processes through digital transformation also creates greater accuracy (Pereira et al., 2022). Automation systems tend to have higher levels of consistency and accuracy than human hands, reducing the chances of errors in business processes. This has important implications in maintaining the reliability and quality of products or services offered to customers. Furthermore, optimizing business processes through digital transformation gives companies an extraordinary ability to respond to market changes faster and more accurately. With real-time data collection and analysis, companies can identify market trends, changes in customer behavior, and opportunities or challenges that may arise more quickly. This allows them to take appropriate and adaptive actions, which can be a key difference in maintaining competitiveness and business growth in the dynamic business environment of today. In other words, digital transformation is not just about internal efficiency but also about the company's ability to innovate and respond quickly to ongoing external changes (Vial, 2019).

Customer Focus and User Experience

Another important dimension in the context of digital transformation is the increased focus on customers and the user experience they encounter. Digital transformation enables companies to gain a deeper understanding of customer preferences, needs, and expectations through the use of sophisticated data analytics (Huseynov, 2021). Data obtained from various sources, such as online interactions, transaction records, customer feedback, and more, provide valuable insights into customer behavior (Wibowo et al., 2020). With this deeper understanding, companies can design better strategies to provide more personalized and satisfying experiences for each customer. This involves delivering products or services that are more in line with each customer's preferences, tailoring promotional offers based on purchase history, and providing more responsive customer



service. Additionally, the use of technologies like artificial intelligence (AI) can enhance a company's ability to provide relevant recommendations and quick solutions to customers (Haleem et al., 2022). The positive impact of an increased focus on customers and user experience extends beyond customer satisfaction; it also involves building strong loyalty. When customers feel acknowledged, understood, and provided with services that meet their needs, they tend to remain loyal to the company. This translates into higher long-term returns through increased customer retention and positive recommendations shared with others. In other words, digital transformation not only changes how companies operate but also how they interact and build sustainable relationships with their customers in this challenging digital era.

Evolution of Business Models

In the era of digital transformation, we also witness significant developments in the evolution of business models, particularly with the growth of subscription-based business models. This model has become increasingly adopted by many companies that previously relied on one-time sales. This change is a response to the constantly changing market dynamics, where customers tend to seek ongoing experiences rather than one-time purchases. Subscription-based business models allow companies to create a more stable and sustainable revenue stream. Unlike single sales where revenue is only obtained when customers make a purchase, subscription models enable companies to earn regular revenue, typically on a monthly or annual basis, from customers who subscribe to their products or services. This not only enhances revenue predictability but also provides companies with the opportunity to build stronger relationships with customers over time. Furthermore, subscription-based business models positively impact customer retention. Subscribing customers tend to be more committed to the company because they have an interest in regularly using the services or products they pay for. By maintaining high customer satisfaction levels and continually improving service or product quality, companies can strengthen customer loyalty and reduce churn rates (subscription cancellations) (Jiang & Zhang, 2016). Additionally, subscription-based business models often open up opportunities for greater personalization. With continually updated customer data, companies can tailor recommendations, offers, and customer experiences more accurately, which can increase customer value over time. So, digital transformation has played a significant role in the shift towards subscription-based business models, bringing substantial benefits in terms of sustainable revenue and stronger customer retention for companies.

Market Expansion Opportunities

Digital transformation opens the door for companies to explore a much broader and deeper market expansion opportunities. Through the use of powerful online platforms, companies now have easier and faster access to the global market, unrestricted by geographical barriers that may have existed in the past. This provides unlimited opportunities for companies to sell their products and services worldwide and expand their market reach. In the digital era, companies can leverage various strategies to explore the global market. This includes approaches like e-commerce, where products can be sold online to customers in different countries, as well as international market penetration through partnerships or acquisitions of local businesses (Ausat & Suherlan, 2021).



Furthermore, the use of social media and digital advertising allows companies to reach a global audience at relatively low costs. One significant advantage of global market expansion is revenue diversification. By operating in different markets, companies can reduce risks associated with economic fluctuations or changing trends in specific markets (Zahra et al., 2000). This can also contribute to overall company growth, as global markets often have greater growth potential than saturated local markets. However, it's important to note that global market expansion also comes with its challenges, such as facing more intense competition, cultural differences, varying regulations, and more. Therefore, companies need to have a well-thought-out strategy and a good understanding of the market they intend to enter before embarking on global expansion. In the overall context, digital transformation is not just about gaining access to global markets, but also about how companies effectively manage it and leverage its potential for long-term growth and success.

Competitive Advantage

Competitive advantage arising from digital transformation is more than just success in product and service differentiation. It involves a company's ability to create products and services that are not unique but also highly relevant with the help of digital technology, which in turn allows the company to differentiate itself from competitors significantly.

First and foremost, product and service differentiation through digital transformation enables companies to respond accurately to various customer needs and preferences. By integrating technologies such as artificial intelligence and advanced data analytics, companies can produce products and services that align more closely with individual customer desires (Sjödin et al., 2021). This creates a deeper and more satisfying experience for customers, which tends to foster stronger and more sustainable bonds with the company's brand. Furthermore, this competitive advantage also encompasses continuous product innovation. Leveraging digital technology, companies can swiftly identify new market trends, explore innovation opportunities, and launch new products that meet the evolving market needs (Hoffman et al., 2022). This innovation not only adds value for customers but also keeps the company in a superior position in a constantly changing market. Additionally, differentiation through digital transformation can also occur through more personalized and responsive customer services. With a deeper understanding of customer preferences through data, companies can provide more focused support and faster solutions in addressing customer issues. This results in a superior customer experience, which often becomes a key factor in choosing one brand over another. In the overall context, the competitive advantage generated by digital transformation is not only about creating different products and services compared to competitors but also about building closer and more meaningful relationships with customers, sustaining innovation, and delivering exceptional customer experiences. When all these elements are combined effectively, they can make a company a strong and sustainable

CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS

In the ongoing era of digital transformation, its impact on business models and competitive advantage is an aspect that cannot be ignored. This digital transformation has fundamentally altered how organizations operate, interact with customers, and compete in an increasingly



competitive market. It has brought about a significant shift in the paradigm of business. Today, more organizations integrate digital technology as an integral part of their business models. This is no longer just an option but a necessity to maintain relevance and competitiveness in the market. One of the most noticeable impacts of digital transformation is the improvement in operational efficiency. Organizations that successfully adopt digital technology can enhance their operational efficiency, reduce production costs, and consequently gain a competitive advantage, particularly in terms of cost. Furthermore, digital transformation has enabled closer interactions with customers through digital platforms. This enables organizations to better understand customer needs and provide more personalized services. The data collected from these interactions help organizations continuously improve their products or services, ultimately supporting competitive advantage.

Innovation becomes the key to maintaining and expanding competitive advantage in the digital era. Organizations that can integrate the latest technology and create innovative solutions are more likely to succeed in the market and create new opportunities. Additionally, significant changes in consumer behavior have occurred. Modern consumers tend to search for product information online, compare prices, and read reviews before making purchasing decisions. This compels businesses to establish a strong digital presence and effective digital marketing strategies to remain relevant. However, in the journey of digital transformation, there are challenges that must be wisely addressed. Data security and customer privacy are complex issues that require serious attention. Moreover, the intense competition in the business world necessitates that organizations continuously adapt and innovate to achieve and maintain competitive advantage.

The implication is that organizations must be proactive in adopting digital technology, innovate continuously, and prioritize closer interactions with customers. They must also develop a strong strategy for managing data security and comply with relevant regulations. To successfully face digital transformation, organizations need to invest in educating and training their employees to understand and master digital technology. Focus on enhancing the customer experience through effective digital marketing strategies and personalized services can help build customer loyalty. A culture of continuous innovation and readiness to respond quickly to market changes are also key factors.

Nevertheless, there are limitations that need to be acknowledged. Organizations with limited resources may face challenges in fully adopting digital technology. Furthermore, changing the organizational culture to support digital transformation can be a challenging task. The rapidly evolving world of technology brings about uncertainty, and organizations must be prepared to confront it. Data security is a complex and continuously evolving issue that demands constant attention. Finally, in a highly competitive business environment, not all organizations may succeed in achieving competitive advantage through digital transformation. By understanding the impact, implications, and following relevant advice, organizations can better prepare to face the challenges and opportunities that come with digital transformation and maintain their competitive advantage in an ever-changing business environment. Digital transformation is an ongoing journey, and successful organizations will continue to innovate and adapt to the ongoing changes in the business and technology landscape.



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