



IBM Global Business Services

Business Model Innovation

Paths to Success: Three Ways to Innovate Your Business Model

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A photograph of a person climbing a rocky mountain peak, with a snow-capped mountain in the background. The person is wearing a red backpack and is captured in a dynamic pose as they ascend the rock face.

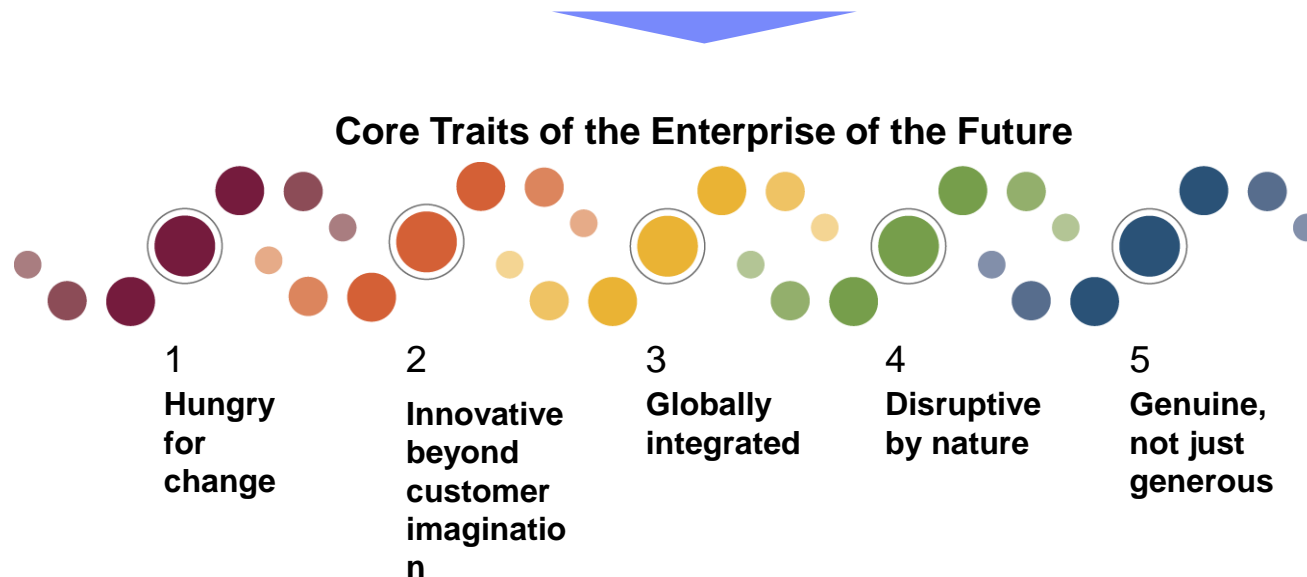
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Agenda

- **Changing Business Environment**
- Summary Findings from Business Model Innovation Study
- Business Model Innovation Framework and Best Practices
- Getting Started

Will UK companies meet the criteria of “The Enterprise of the Future”?

- Based on the 1,130 CEO interviews, IBM’s Global CEO Survey highlights five key traits of the “Enterprise of the Future”



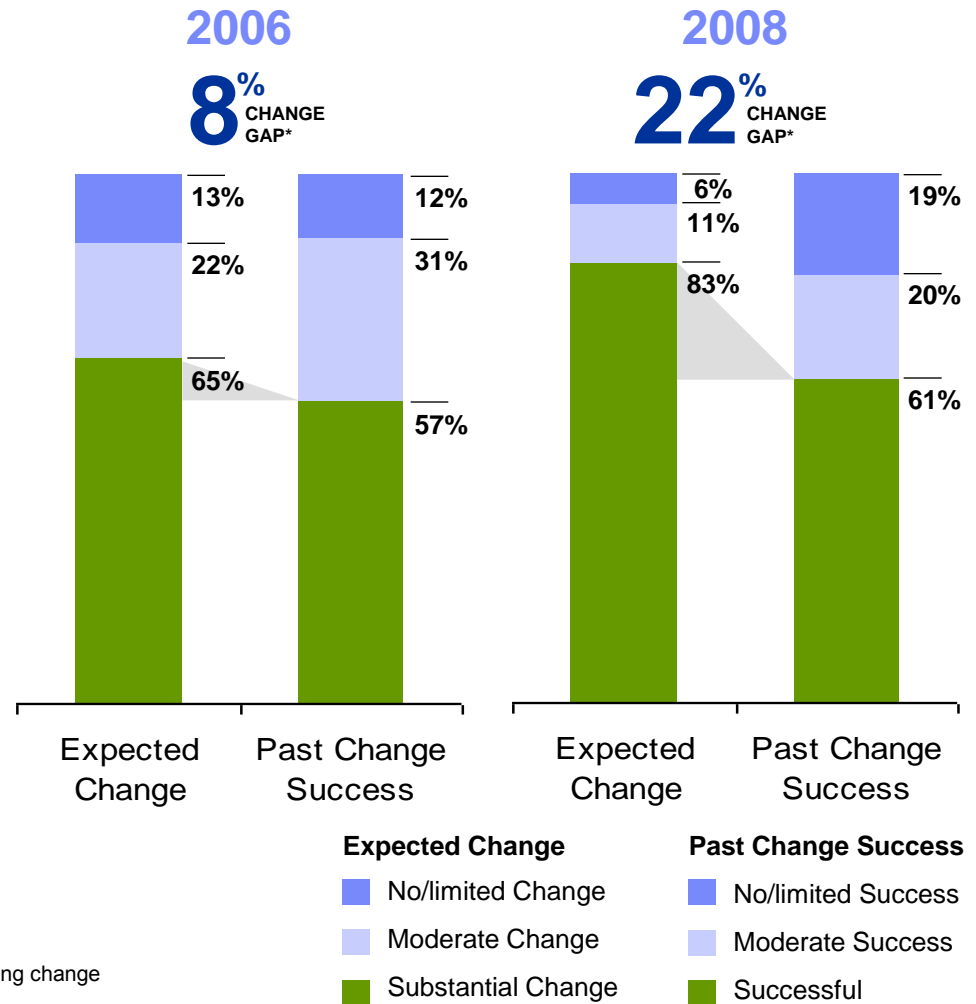
- The 61 interviews carried out in the UK¹ provide an opportunity to contrast the views of UK respondents with global views

¹The geographic area analysed here is in fact UKISA: 55 interviews were carried out in the UK, and 6 in South Africa; see Appendix for further details

The Enterprise of the Future is Hungry for Change

More CEOs than ever before – 8 in 10 – anticipate turbulent change, and plan bold moves in response

- In two years the gap between the ability to manage change and the challenge ahead has tripled
- The number of companies reporting limited or no success has surged 60%
- Outperforming organizations are significantly better than their peers at successfully navigating change



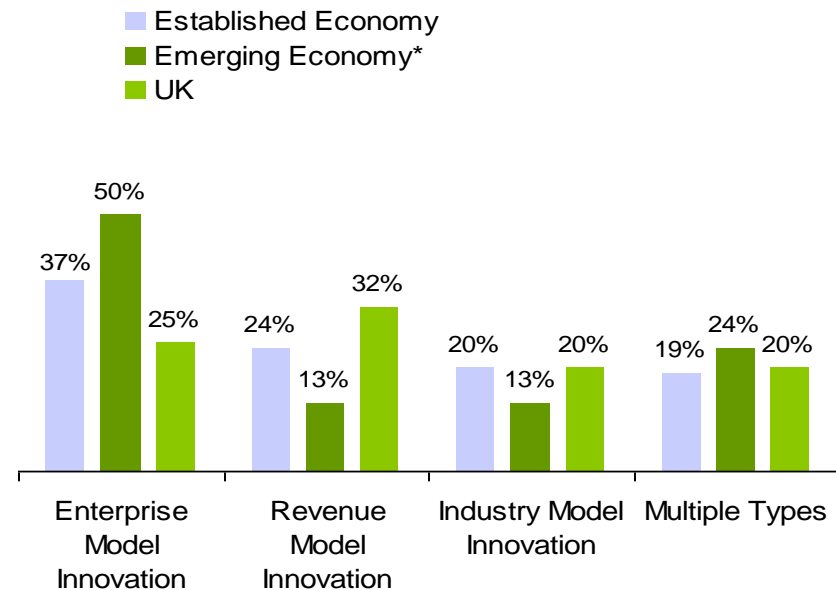
* Difference or 'gap' between expected level of change needed and past success in managing change
 Source: IBM Global CEO Study 2008; n (2006) = 709, n (2008) = 1104

The Enterprise of the Future is Disruptive by Nature

More than two-thirds of CEOs strongly focused on the most sustainable form of innovation – business model transformation

- More than 2 in 5 pursue business models that are more externally collaborative
- More than 1 in 5 pursue an even more disruptive path: redefining their markets, moving into or creating wholly new industries
- More outperformers (28%) choose the most difficult transformation - disrupting industries - and more (49%) choose collaborative business models

Focus on Business Model Innovation by Type



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Top-line findings from Business Model Innovation study

1 Business Model Innovation improves margins

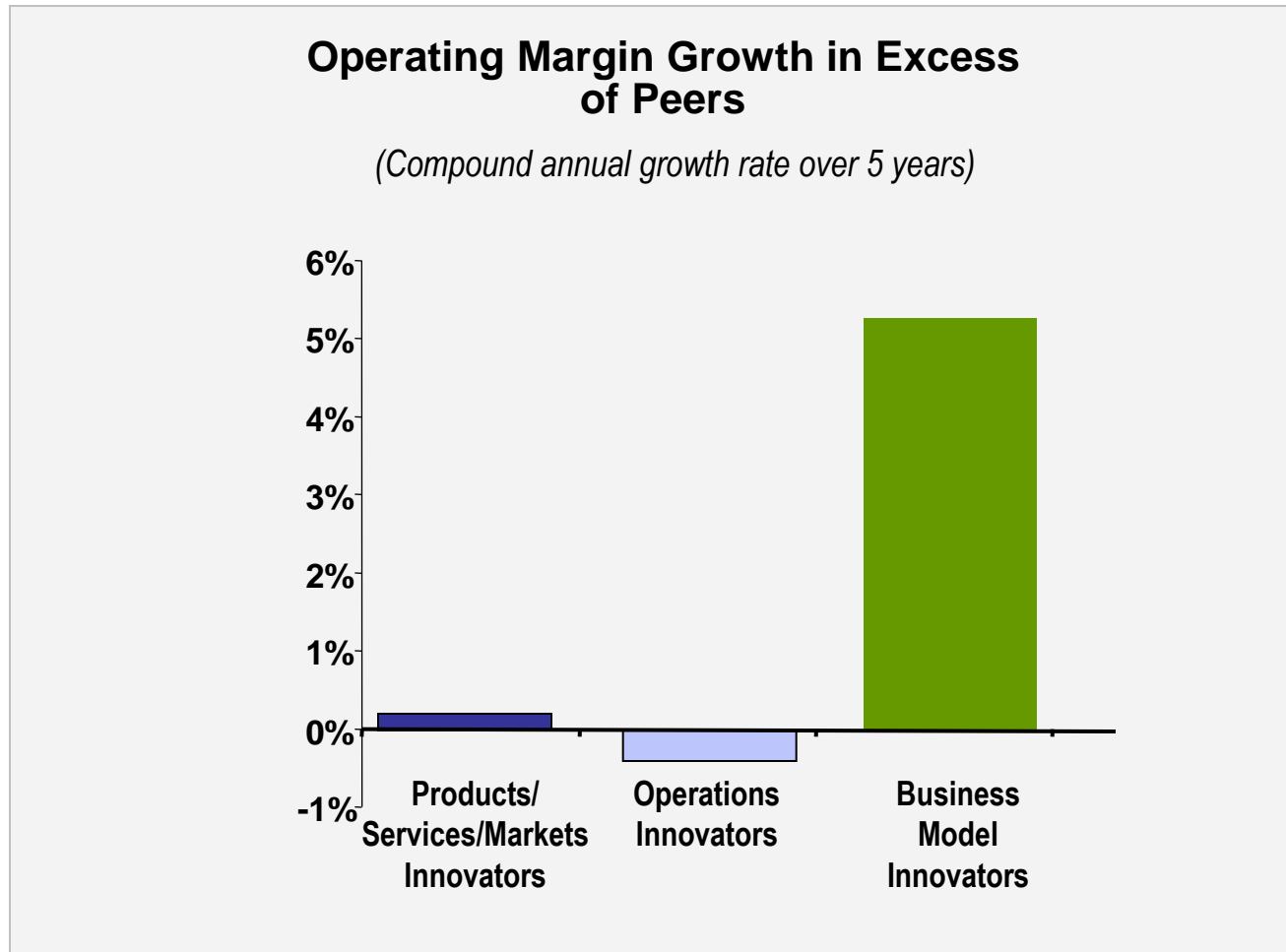
2 There are three distinct paths for business model innovation

3 Each of these paths (or combination) can lead to financial success; the right strategy and execution are key

4 Enterprise model innovation through collaborative innovation is the most prominent model



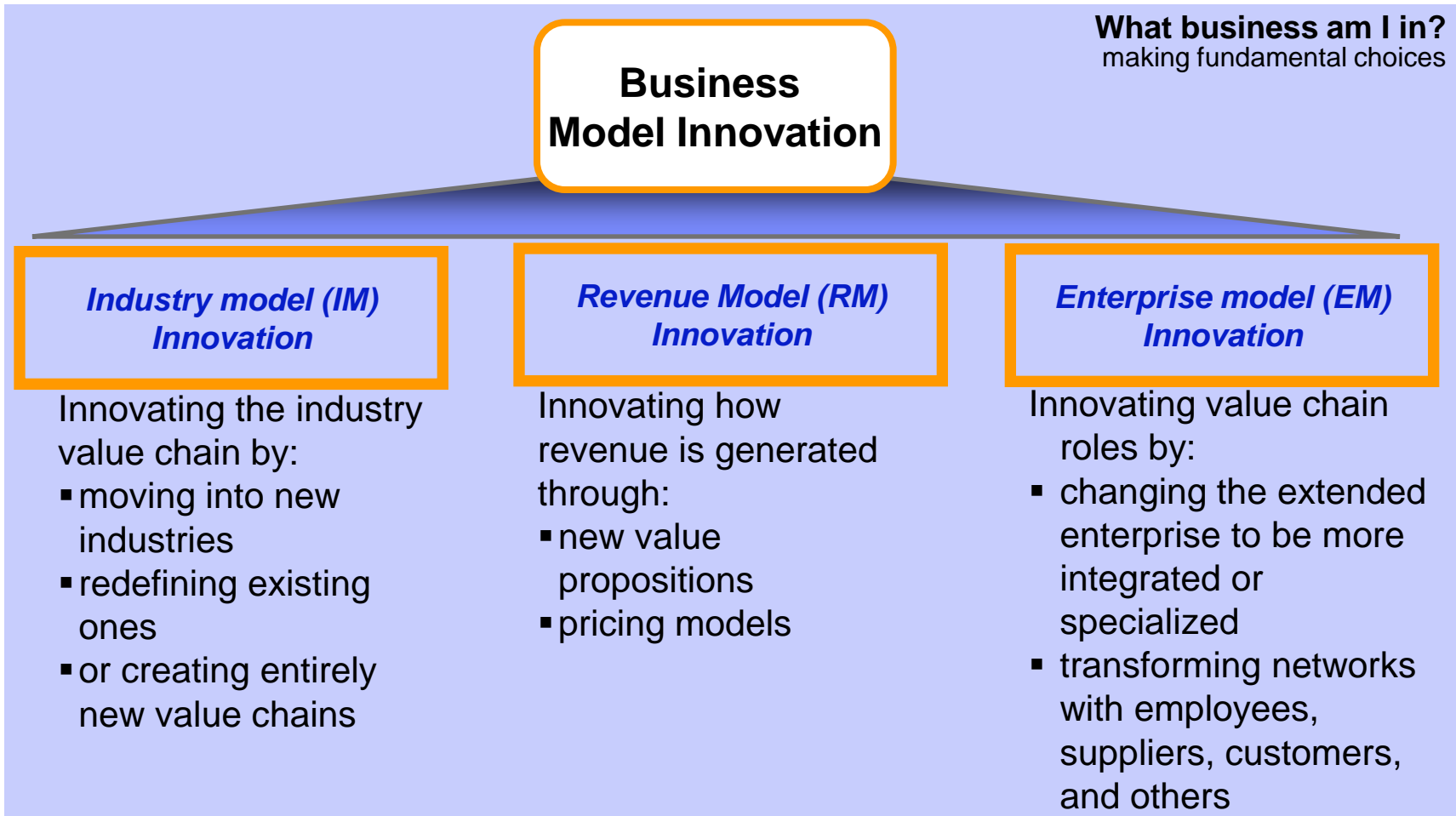
Business Model Innovation improves margins



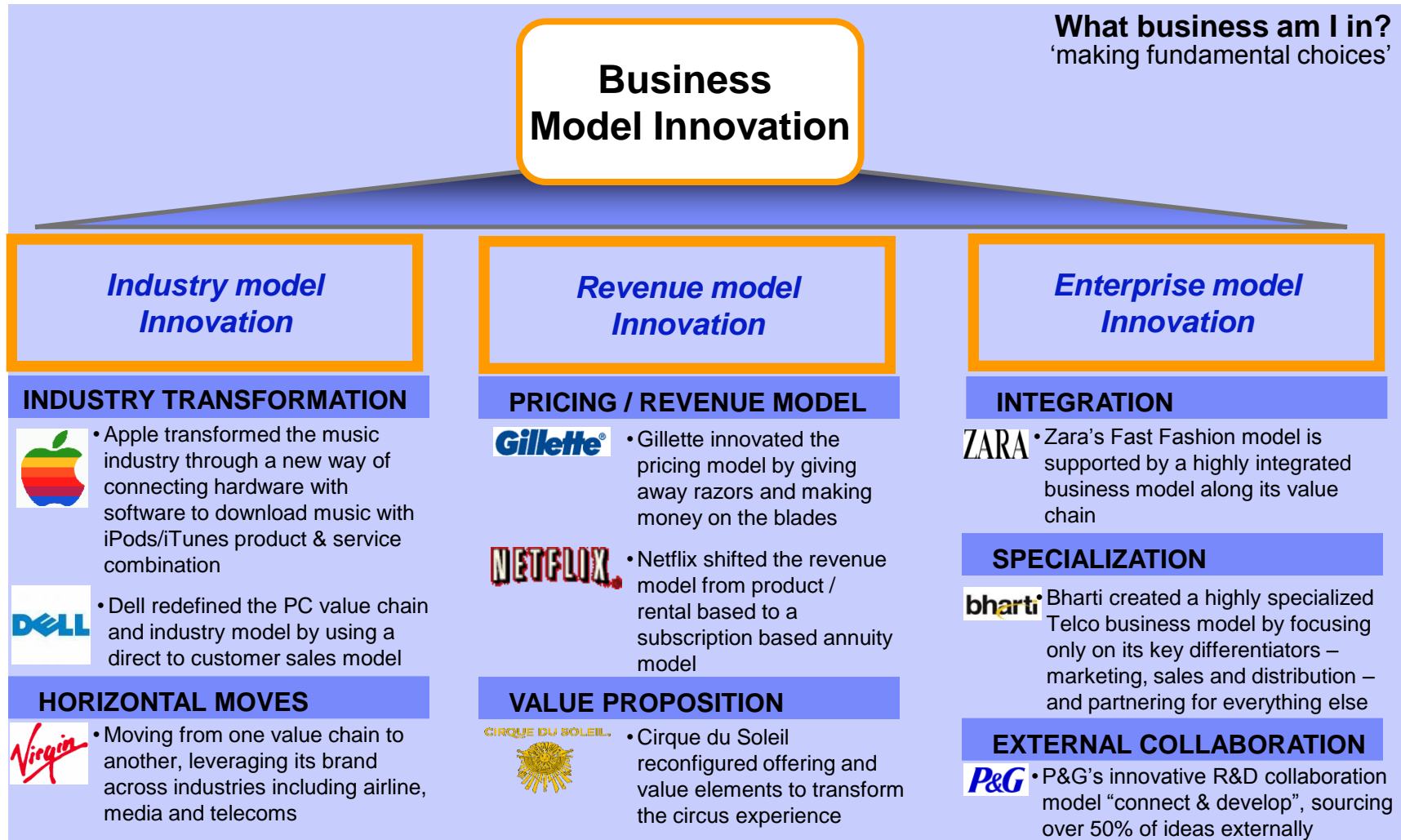
Source: *The Global CEO Study 2006: Expanding the Innovation Horizon*

There are three distinct paths for Business Model Innovation

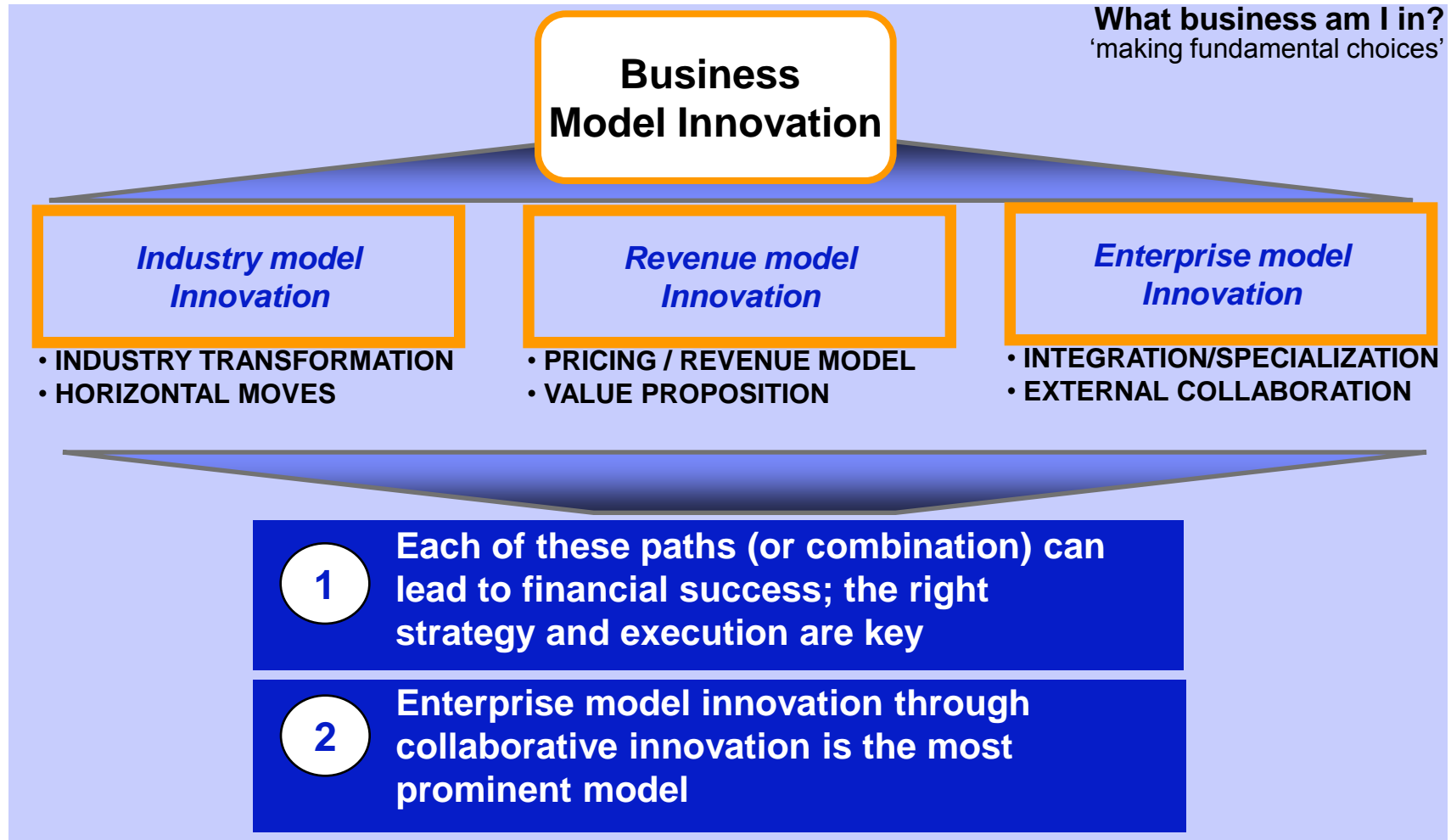
Based on literature research and 35 best practice cases (*), we define business model innovation along three dimensions



Within each path, organizations adopt a set of levers to innovate their business model



Two key findings of the Business Model Innovation research on 35 best practice cases

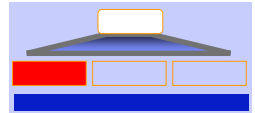


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Industry Model Innovation – Industry Transformation

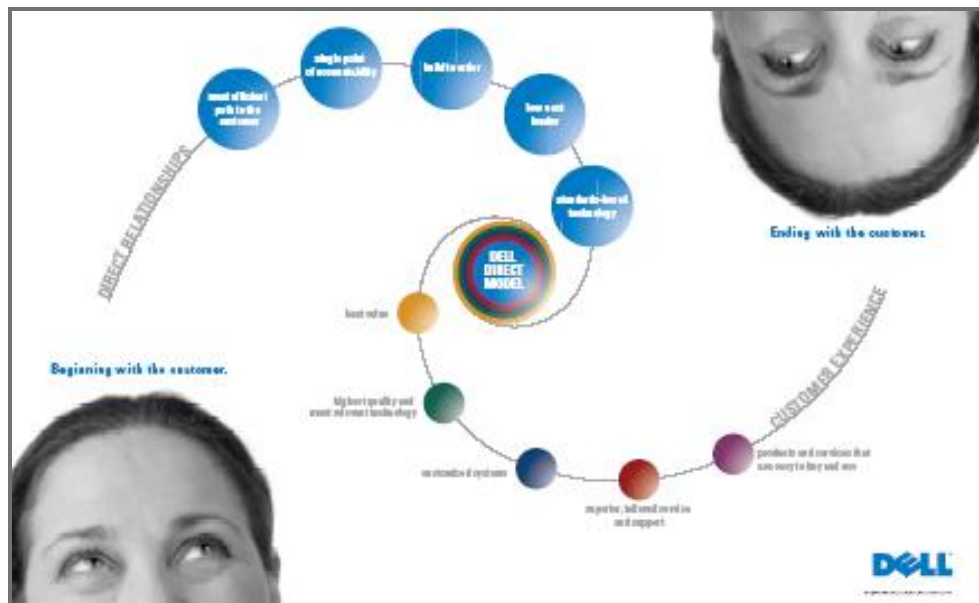
New models are transforming traditional industry value chains



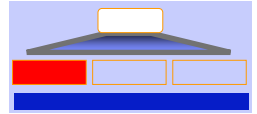
Value Chain Transformation

- ❖ Companies are changing the “rules of the game” by challenging traditional value chains through disintermediation
- ❖ Most significant advances were enabled through the internet as new “direct models” allowed cutting out the middle man

Example: The “Dell Direct” Model



1. Direct path to the customer
2. Single point of accountability
3. Build-to-Order
4. Low cost leadership
5. Standards-based technology



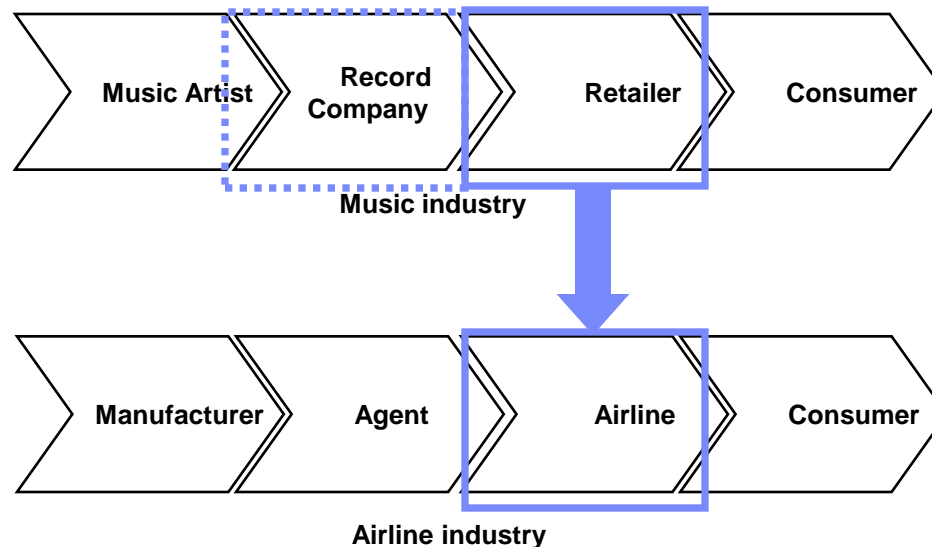
Industry Model Innovation – Horizontal moves

Companies leverage assets through horizontal moves

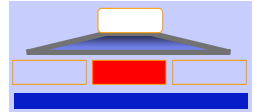
Horizontal Moves

- ❖ Companies are exporting differentiating expertise / experience / assets to a comparable part of another industry value chain
- ❖ Most prominent examples are leveraging brand assets to move aggressively from one value chain to another.

Example: Virgin horizontal moves



Revenue Model Innovation – Pricing/Revenue Models Driving shifts in underlying pricing and revenue models

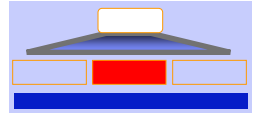


Revenue / Pricing Model Innovation

- ❖ Companies are transforming the “rules of the game” in their industry by driving fundamental shifts in the underlying pricing and revenue models
- ❖ In several industries (e.g. Media and entertainment) digitization of content has created entirely new models, such as charging for different ring tones

Examples: Distinct Pricing and Revenue Model Innovations

Subscription Model	<ul style="list-style-type: none"> • Replacing traditional pay per individual product models with selling periodic use or access to products and services • Example: Newspapers & Magazines, movie rental subscription, mobile phones, pay TV channels
Razor & Blade Model	<ul style="list-style-type: none"> • The razor & blade model (also called “tied products model”) works by selling initial master product at a subsidized price or even at a loss, and making profit on high margin consumables that are essential • Examples: Gillette razor/blades, Computer printer/cartridge, mobile phone/air time
Product to Services Model	<ul style="list-style-type: none"> • Many industries see a transition from a traditional product focus to service focus, often changing the traditional dichotomy of products vs service to a continuum and alignment • Examples: Electronics industry, e.g. IBMs replacing traditional product focus through service led “business solutions”

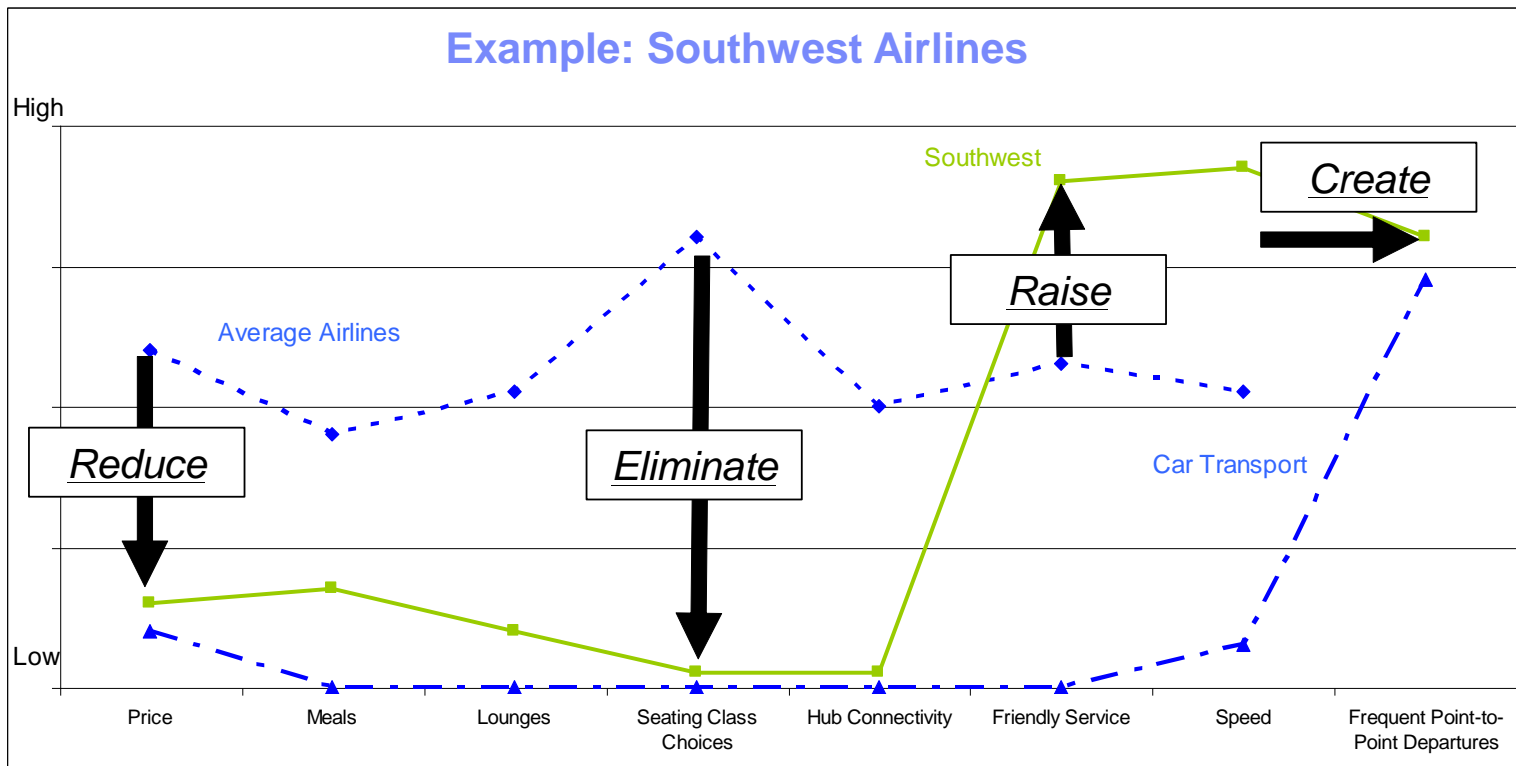


Revenue Model Innovation – Value Proposition

Innovating the value proposition through reconfiguration

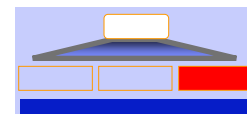
Value Innovation. Creating Value while Reducing Costs

- ❖ Value Innovators open new, uncontested spaces, and generate a leap in customer value
- ❖ They reconfigure factors of competition and the value they bring to the customer
- ❖ Unprecedented value propositions and therefore create completely new markets



Enterprise Model Innovation – integration / specialization

Innovating along the integration / specialization continuum



Integration and Specialization

- ❖ **Integrators** play in and execute their business component map completely
- ❖ **Specialized players** concentrate on a limited number of differentiating ‘business components’ and partner on selected non-differentiating ‘business components’

Examples: Zara (Integration) and Bharti (Specialization)

Zara is owning/driving/executing and therefore **integrating** all components out of the Fashion component map

Telco players like Bharti are **specializing** on differentiating components (like marketing, sales, distribution)

	Marketing & Customers	Product	Stores & Channels	Production / Manufacturing	Logistics & Distribution	Business Administration	
Direct	CRM strategy	Brand / Business Practice Strategy	Channel strategy	Delocalization	Supply Chain strategy	Corporate Strategy and Planning	
	Marketing strategy	Assortment planning	Store architecture & layout	SRM with Factories and third parties	WIP & raw materials planning	Corporate Governance	
	Customer behavior definition	Merchandise planning	Channel design	Production planning	Network & Asset optimization	Alliance Management	
Control	Market & competitors analysis	Collection	Profitability analysis on channel / store	Factories / supplier sourcing and anal.	Supplier scoring	Business Performance Management	
	Segmentation Management	Price and promotion optimization	Store Operations management	Factories / supplier sourcing	Inbound Logistics	External Market Analysis	
	Matching Supply and Demand	New In-season products	Sales analysis	Sourcing	Into-company & Outbound Logistics	Organization and Process Design	
	Marketing campaign	Sourcing	OTB execution	Sourcing	Transportation / Fleet Management	Legal, Tax and Regulatory Compliance	
Execute	Loyalty	Seasonal forecast	Agents management	Production traceability	Warehouse Management	Treasury & Risk Mgmt	
	Customer Service	Replenishment	Services Delivery	Samples / collection	Stock transfer among DOS	Financial Accounting & Reporting	
	In-Store initial execution	Price changing	Time & Attendance on site / color	Plant Inventory Management	Returns & Reclamation	Facilities & Equip Mgmt	
	Communication and Adv execution	DOS by size / color management	Technical product data management	POS / Cash management	Manufacturing procurement	Product Track & Trace	Resource Development
	Alter Sales	Multi-channel Call Center				Transportation / Fleet / Yard Operations	HR Administration
	Cust. Infos management					IT Systems & Operations	

Fashion component map

Zara Focus

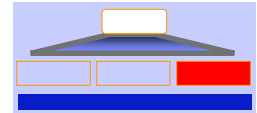
	Develop New Markets and Products	Acquire and Manage Customers	Develop and Provide Network Services	Manage Enterprise					
	Marketing	New Product Development	Sales	Customer Management and Care	Billing and Collections	Provisioning & Fulfillment	Service Assurance	Network Resource Development	Business Management
Directing	Market and Brand Strategy	Product & Offer Portfolio Planning 2.1	Sales Channel Strategy 2.1	Customer Management and Care Strategy 2.2-2.4		Fulfillment and resource Planning	Service Strategy and Resource Planning 2.2-2	Technology and Resource Strategy and Readiness Planning 2.3-1, 2.3-2	Strategic Enterprise Planning 3.1-1
	Brand Management 3.1-1	Product Development and Refinement 2.1-7	Alliance Strategy 2.4	CRM Support and Readiness (Control) 1.1-1	Billing & Collections Management 1.1-8	Device and Supplier Order Management	Service Management Support and Readiness 1.2-1	Network Resource Performance Management 1.3-1, 1.3-1	Supply Chain Value Net Strategy 2.4-1
Controlling	Marketing Communications, Advertising and Promotions 1.1-3, 1.1-3		Sales Channel and Alliance Management 2.4-8	CRM Support and Readiness (Control) 1.1-1			Customer S.A.I. QoS Management 1.1-7	Supplier Partner Performance Management 1.4-1	
	Marketing Research and Analysis 1.1-9		Account Planning 2.1-8	Loyalty and Retention 1.1-9				Supplier Partner Problem Rep & Mgt	
Executing		Service Development and Refinement 2.2-4	Customer Interface Management 1.1-2			Order Handling 1.5	Service Configuration, Activation, Disconnects 2-2	Service Testing and performance management 1.3-2, 3.1-3, 3.1-4	
	Customer Analytics and Profit Reach		Sales	Problem Handling and Resolution 1.1-6	BMC	Rating & Customer Billing 1.3-6	Service Problem Management 2-3	Inventory Management 1.3-1, 1.3-1	
	Excuse Campaigns and market by Segment		Problem Handling and Resolution 1.1-6	Supplier Partner Settlement and Billing 4.7		Supplier Partner Settlement and Billing 4.7			

Telco component map

Bharti Focus

Enterprise Model Innovation – Collaboration & Partnering

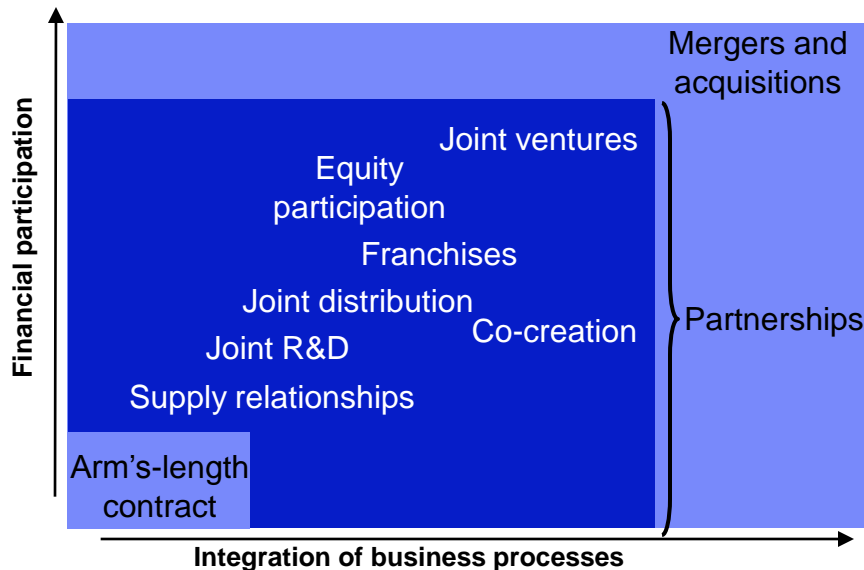
Companies are redefining the “extended enterprise”



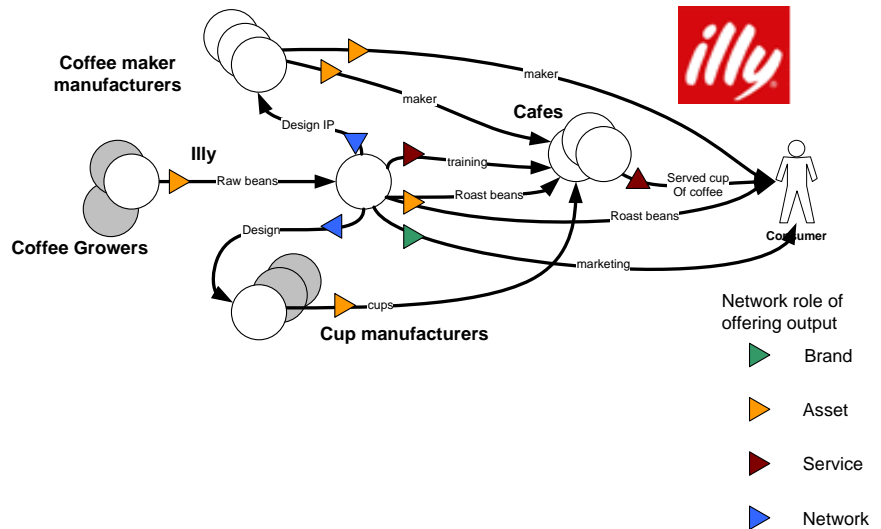
Collaboration and Partnering

- ❖ **Collaborators** seek collaboration in a selected number of business areas/components
- ❖ **Partnerships** and collaboration range from supplier relationships to legal joint ventures, even leading to ‘value networks’

Collaboration partnership continuum



Example: Illy Café Value Network Collaboration

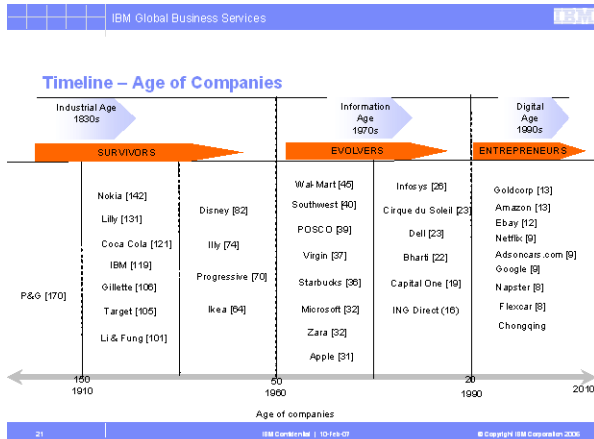


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Understand the constraints

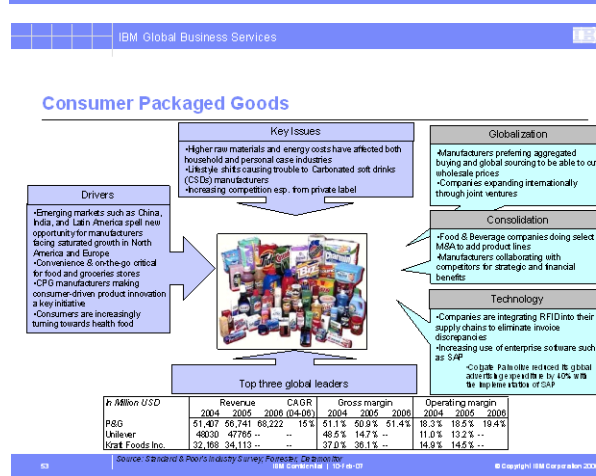
Age of Company



- Depending on age and organizational legacy, companies are pursuing different business model innovation paths
- Understanding implications will set the framework for taking decisions on both type and degree of business model innovation



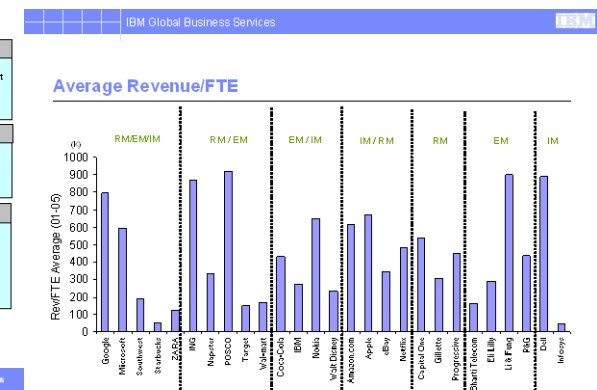
Industry



- Nature of business model innovation opportunities vary by industry, depending on unique characteristics and maturity in each industry
- Understanding the nature of opportunities within – and across – industries allows identification of incremental or radical innovations



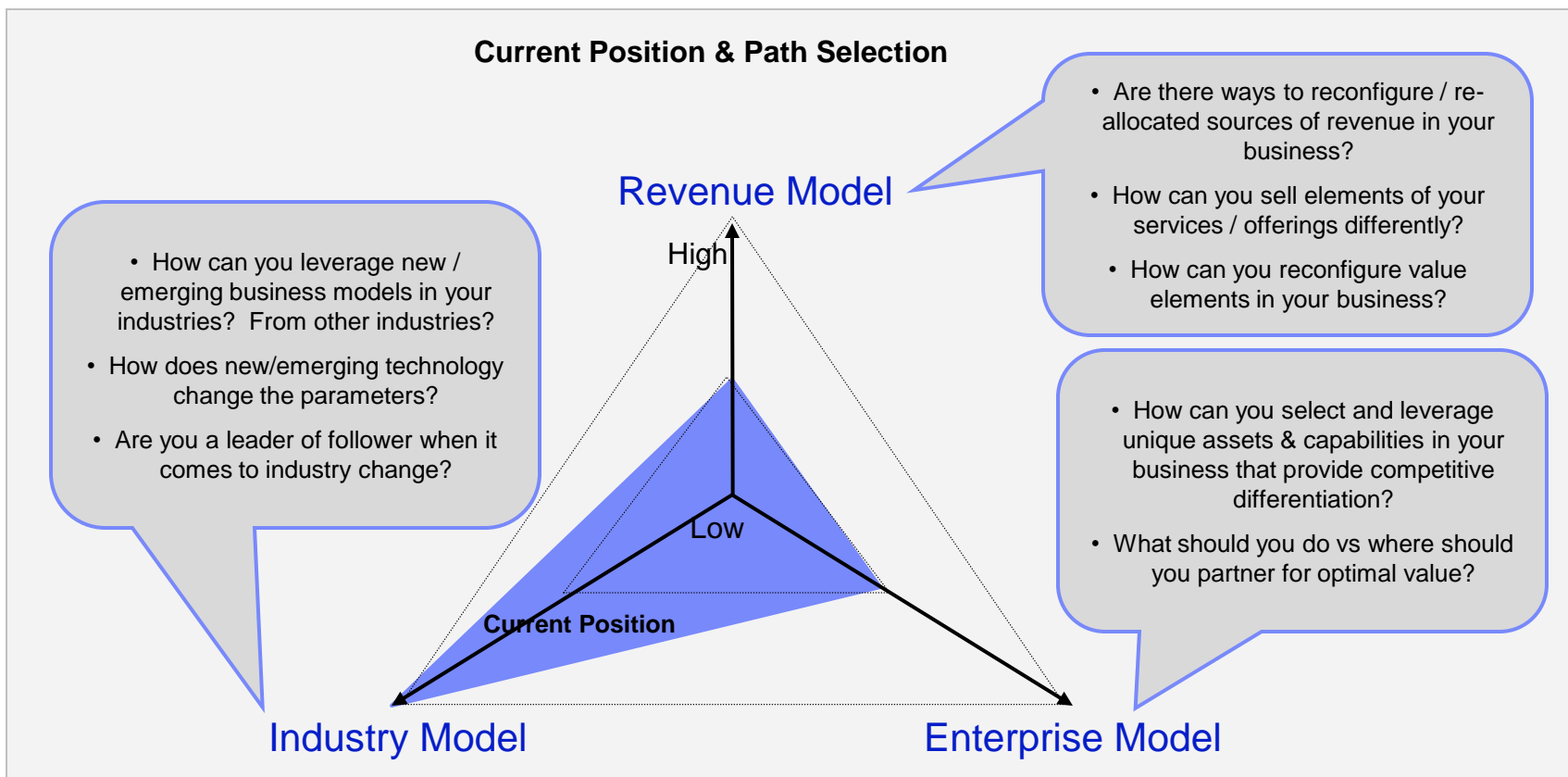
Financial Performance



- Benchmarking performance against industry peers, especially financial opportunities created through business model innovation

Leveraging the results of IBM's research on 35 best practice BMI cases

What kind of innovation best addresses these constraints?



Degree of Innovation

- How does the degree of innovation relate to your industry? How will it change in the future?
- Do you have the right balance?

Timing of Innovation

- Do you drive change in the industry, or is it imposed on you? Lead vs follow?
- What are the disruptive technologies or models emerging today?

BMI Path

- Which business model innovation paths are we / should you explore?
- Which ones are most aligned with our industry, capabilities, vision?

Enterprise Model Innovation: a component-based approach

An **Accountability Level** characterises the scope and intent of activity and decision-making. The three levels used are Direct, Control and Execute.

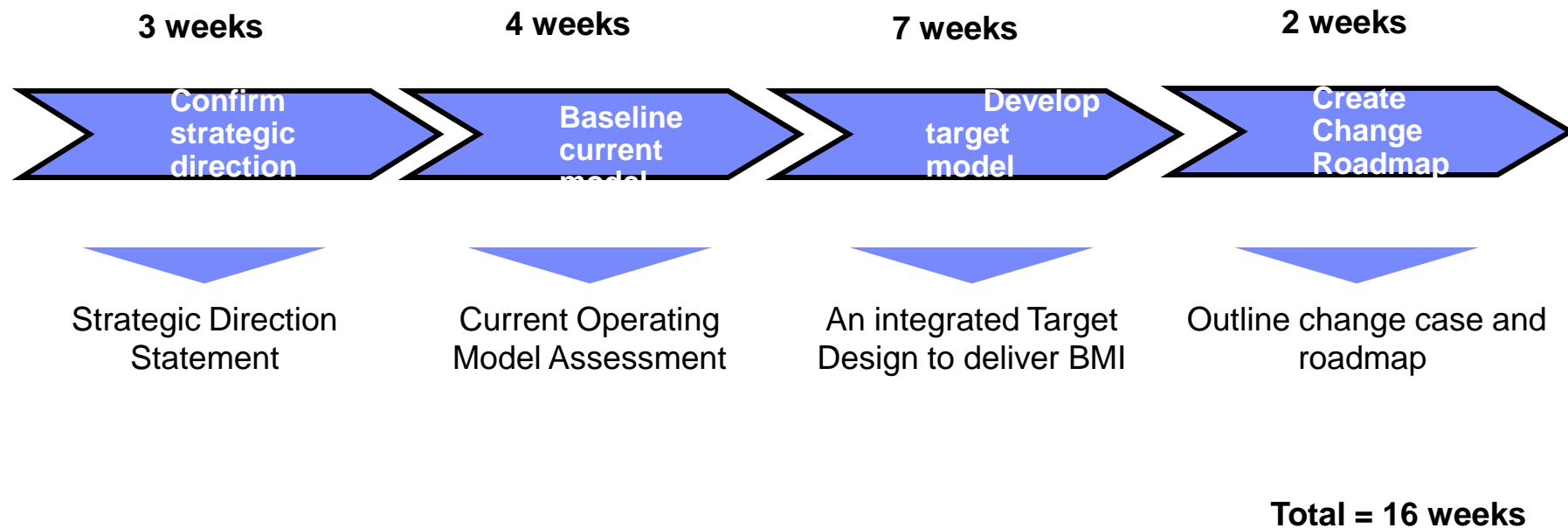
Columns are **Business Competencies**, defined as large business areas with characteristic skills and capabilities, for example card management or payment transaction processing.

A **Business Component** supplies a **capability** to an enterprise: it carries out activities, using resources, applications and infrastructure to do so. Each capability should be unique and only appear once (or on occasions twice) on the map

		<i>Business Competencies</i> →					
		Business Administration	New Business Development	Relationship Management	Servicing & Sales	Product Fulfilment	Financial Control and Accounting
<i>Accountability Level</i>	Direct	Business Planning	Sector Planning	Account Planning	Sales Planning	Fulfilment Planning	Portfolio Planning
	Control	Business Unit Tracking	Sector Management	Relationship Management	Marketing	Fulfilment Planning	Compliance
		Staff Appraisals	Product Management	Credit Assessment			Reconciliation
	Execute	Staff Administration	Product Directory	Credit Administration	Sales	Product Fulfilment	Customer Accounts
		Production Administration	Marketing Campaigns		Customer Dialogue	Document Management	General Ledger
					Contact Routing		

Illustrative

Enterprise Model Innovation – high level design



Ways of working: ongoing interactions with senior management team through: 1 to 1 interviews, establishment of “war room” to show gallery of deliverables, workshops to challenge hypotheses and agree priorities

Summary

- The drastically changing industry landscape is driving the emergence of new business models
- Our Business Model Innovation Research shows that:
 - Business Model Innovation improves margins
 - Different paths of business model innovation can lead to success – the right strategy and execution are key
 - Enterprise model innovation through collaborative innovation is the most prominent model
- Companies should get started by understanding their current position, the industry and competition, and by defining and selecting future opportunities



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