

Digital Economy Business Models

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Hi it's Rob Llewellyn here and welcome to episode eleven of transformation management. Thank you so much for joining me today. As always I'm going to do my best to help you get better equipped to manage and lead transformation.

The word "transformation" gets thrown around a lot these days, and it can have different meanings for different individuals and companies. In a world of unprecedented disruption and market turbulence, transformation today revolves around the need to generate new value, to unlock new opportunities, to drive new growth, and to deliver new efficiencies.

Some try to console themselves with the belief that incremental improvement is enough. The reality is that this type of "change project" is not transformational enough to thrive and survive in today's exponentially disrupted business environment.

Transformation is about creating a new future, without the constraints of the past. You innovate and leverage digital to bring about a transformation. Whereas change only creates a better version of the past.

Far too much attention is being paid to highly visible but often superficial digital change projects. And in some cases, many of these initiatives are basically IT projects with the label "digital" stuck on them.

Look around and identify something in your company that's being labelled as "digital transformation" and then answer two questions:

The first is "will this initiative protect us against a disruptive new business model?"
And the second is "will this initiative create disruption in the market?"

If the answer to both is "no" then it's quite possible that the initiative you're thinking of is simply a change project. And while there's nothing wrong with change projects, it's important that leaders don't delude themselves into believing that all projects involving digital technology are transformations.

But right now, countless companies are living in the false hope that their so-called transformation will position them as leaders in the digital economy. Often because the people leading these initiatives lack the courage to accept the fact that that they're going about

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transformation all wrong. And that in fact, they're doing nothing that will either disrupt nor protect against disruption.

The purest and most formidable type of transformation is business model transformation. And let's face it, business models are far less durable than they used to be. The basic rules of the game for creating and capturing economic value were once fixed in place for years, even decades, as companies tried to execute the same business models better than their competitors did.

Authentic digital economy leaders anticipate and create disruption with new business models. They lead. They don't get led by other disruptors and get forced to go on the defensive.

These authentic digital economy leaders follow bold and disruptive strategies. They make big bets on new business models that are enabled by new technologies, and they foster a test-and-learn culture.

It's not enough to simply be reactive to disruption because the firms that sit around waiting for disruption to happen eventually find themselves on the back foot and on the defensive. They get shaken up, then spend all their time, money and resources trying to stem the bleed of market share.

Meanwhile their known and unknown disruptors are busy planning their next moves. For many, it's a downward spiral from there, with plenty of leaders getting replaced en-route - from business leaders right up to the CEO. I've seen it happen.

Digital disruptors innovate rapidly and are agile enough to exploit business models that threaten market incumbents, often across multiple sectors.

Disruptors don't replicate the value chains of traditional companies. Instead, they use digital business models to lower costs, build better customer experiences, and create scale. Which means that tired old business models still used by many traditional companies are subject to displacement, disruption, and eventual destruction.

But the term "business model" is also banded around as flippantly as the word transformation.

So what is a business model?

Well a business model consists of two key components: the value proposition and the operating model.

The value proposition answers the question, what are we offering to whom? It reflects explicit choices along three dimensions:

Product or Service Offering - meaning what are we offering the customers to satisfy their needs?

Segmentation - meaning which customers do we choose to serve? And which of their needs

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do we want to address?

And Revenue Model - meaning how are we compensated for our offering?

The operating model answers the question, how do we profitably deliver the offering? It captures the business's choices in the three areas:

The Value Chain - meaning how are we configured to deliver on customer demand?

Cost Model - meaning how do we configure our assets and costs to deliver on our value proposition profitably?

And Organisation - meaning how do we deploy and develop our people to sustain and enhance our competitive advantage?

A good business model answers Peter Drucker's age-old questions: Who is the customer? And what does the customer value? It also answers the fundamental questions every manager should ask:

How do we make money in this business?

And what is the underlying economic logic that explains how we can deliver value to customers at an appropriate cost?

Look around at all the common examples and you'll notice that most of those companies disrupted markets by introducing new business models.

New business models are emerging faster than ever. And business models of the future take business model innovation further. They go beyond thinking about deployment of the latest technology or seeking to scale up rapidly, to trying to become part of the building blocks that support economies and enable societies to thrive.

Business models of the future are ones that will navigate the complexity of tomorrow's world to help build economic and social systems where ingenuity, creativity and inclusion come together to help people unlock their potential and live well.

Effective business model innovation is the ability to discover new ways of making money. It's often developed by tying scalable revenue or margin opportunities to untapped sources of customer value or by creating value more cost-effectively than the competition. The most successful business model innovations combine new ways of making money with innovative, great customer experiences.

An increasing number of prominent firms, that have been successful in the past, are losing their competitive advantage, and it's their lack of authentic digital economy leadership that is allowing those companies to fade away. These are the companies that are being led by old mindsets that hang on to antiquated beliefs that no longer hold true.

When strong players like Kodak, Grundig, Triumph, and Borders can vanish from the business landscape, there is little if any reason why other companies under the wrong

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leadership won't also follow suite. When the first digital cameras entered the market in 1999, Kodak forecasted that ten years later digital cameras would account for only 5 % of the market.

I know of several leadership teams that are right now in similar denial, believing that something that currently stands in their favour will prevent their disruption. Such a naive mindset among leaders is what toppled Kodak and many other companies. And that naive mindset continues to prevail among leaders that live in denial about what will continue to happen as the digital economy unfolds.

While some CEOs talk about the notion of innovating their company's business model, talk and even plans alone aren't enough. When it comes to really transforming the business model, many struggle, and few managers and leaders are able to articulate their company's business model - or even explain what a business model actually is.

Companies that were once strong but which are now buckling under pressure from external factors and forces have lost the innovative strength they once had. They've failed to adapt their business models to the digital economy, and unless they make a dramatic shift, their future is often a predictable one.

Many companies have grown on their trusty old business models that are rooted in history and bound by old processes and culture. But to avoid becoming irrelevant in an increasingly changing world, they need to dust off antiquated models and make them fit for purpose in today's digitised environment.

Big companies have traditionally struggled to innovate in their business models, even as digital technology has brought business-model innovation to the forefront of the corporate agenda.

But big companies can be disruptive - if they identify and overcome their common but limiting orthodoxies about how to do business. So how can established companies pursue disruptive business models to make money in new ways? Ways that enable them to thrive and survive in the digital economy.

While many companies have a well-defined process for creating new products and services, very few have articulated a means for shaping new business models.

Business model innovation may be more challenging than product or process innovation, but it also delivers superior returns. And becoming good at business model innovation and transformation is like developing any other capability. And without the right capability, you shouldn't expect to achieve very good results.

Before looking for new business model opportunities, it's important to diagnose the current model to understand its limitations. Look closely at each element of the business model and test how the choice aligns with industry trends, evolving customer preferences, and relative advantage or disadvantage over competitors.

Business model innovation begins by assessing the company's current context, the needs of

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its customers, and the models of its competitors.

Let's consider some of the questions that executives and managers should be asking in their business model innovation process.

What compromises does our current business model force customers to make?

Why are customers moving to our competitors? - Especially our most recent competitors.

Do we offer customers a better value proposition than that of the competition?

What alternative models are gaining share at the edges of our industry?

If we were an industry outsider, what would we do to take advantage of the gaps or weaknesses in our business model?

What is our process to identify and implement new business models?

What is our plan to acquire the new capabilities we need for business model transformation?

What do we need to change in our operations and organisation to implement a new business model?

Will we need to create separate business units dedicated to developing and sustaining disruptive business models?

And if so, will these exist in parallel with our existing business?

The winners in business model innovation aren't necessarily the originators of new models. More often, they're the ones that are the first to successfully roll out ideas that others may have originated. So scaling up can be the most critical step for business model innovation.

The authors of "The Business Model Navigator" suggest that in the future, competition will take place between business models, and not just between products and technologies. They also explain how a company's business model consists of four dimensions, which are: the customer, the value proposition, the value chain, and the profit mechanism - and that business model innovation requires significant modification of at least two of those four components.

You can learn more about the Business Model Navigator by downloading the PDF that I've included in the show-notes at: www.roblllewellyn.com/11

I also suggest you take a look at Ten Types of Innovation - which I've also I've included in the show-notes.

When it comes to transformation and business models, unless we're willing to define exactly what they are, the concepts will remain confusing and difficult to use. Definition brings clarity, and when it comes to concepts that are so fundamental to performance, no

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organisation can afford to allow fuzzy thinking around transformation or business models.

Transformation is the opportunity to define a bold ambition that goes beyond incremental change. It's the opportunity to rethink your business and operating models to deliver new value.

Creating a new business model comes with a need to modify your company's operations to align with a new business model, and you'll probably need many new types of skills in your workforce to be successful at that.

I appreciate you listening, and here's a quote to finish off the day from Clay Christensen.

“We adhere to the saying, “if it ain't broke, don't fix it,” while not really questioning whether “it” is “broke.”

What in your company's business model is either broken or about to be broken by new disruptive business models?

I hope you enjoyed this episode. Thanks for listening - Take care and I'll catch you in the next episode of transformation management. Bye.

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