

EPISODE 28

The CEO and Business Model Transformation

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Hi, it's Rob Llewellyn here and welcome to episode twenty-eight 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.

We know that many established companies are feeling the harmful effects of new digital businesses and that other incumbents are responding well to the new threats and opportunities of our era.

This means that the old ways of doing business are slowly dying, and sooner or later, any company that hangs on to those old ways is likely to eventually die too.

While companies rely on people at all levels of the organisation to transform the business, if the CEO lacks an entrepreneurial and transformational mindset, it's possible that the innovative talent that exists throughout the company will be wasted on it.

This is because digital transformation isn't just about products and technology. Digital transformation should be an enabler for new business models, because it's business models that are either enabling companies to thrive or die these days.

New business models are at the heart of new disruptive companies we sit up and take notice of. And antiquated business models are at the heart of other companies that are on a downward trajectory.

A business model is about delivering value and capturing a portion of that value in the form of revenues and profits. And while some business models have always existed, others are new, and more are waiting to be discovered or revealed to the world.

So, the question every board should be asking its CEO is, "Are we setting out to create the new normal in our industry or are we waiting for a known or unknown competitor to do it and erode our competitive edge, market share and profit?"

And, "Is our CEO thinking radically? Is he or she adjusting their governance rules for experimentation and creating an environment where innovation and new business models can thrive?"

We've seen a fundamental shift in how companies compete. The big success factor in business is no longer better quality or lower prices. It's all about having a superior business model.

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And while a successful business model is dependent on the right operating model, and the right operating model is dependent on the right people, processes and technology, etc. Put simply, it's the business model that determines how a company creates value and makes money. And if that business model isn't effective in a digital world, then eventually the company will find itself in trouble.

The problem in many firms right now is that they're limited to digital sugar-coating projects and deluding uninformed executives that the company is transforming in an authentic way, simply because of its digital projects. Because the words digital and transformation are not the same, and the words often don't belong in the same sentence. And it's this delusional thinking that will steer many more companies to an early grave.

People often associate transformation with the adoption of new technology, and while technology is one of the important enablers of transformation, it doesn't transform a company or an industry on its own.

Put simply, too many companies are still relying on business models that were never designed to compete in the digital economy, because they were created in a very different era to the one we now live in.

Yet some traditional managers and leaders are struggling to let go of their old beliefs, and if they fail to shift their mindset, then that could be a sign that those managers and leaders might well be past their sell-by date and nearing the end of their career as they know it.

And while many companies are doing their best to translate notions of digital transformation into a business reality, too many are relying on small improvements that only create a better version of the past. Their so-called digital transformation is often little more than a technology upgrade and a basic business change, which is often a world away from legitimate transformation.

When you think about where the new well-known new business models come from, it doesn't take long before you realise they come from entrepreneurial thinkers - who created their own business.

CEOs first need to embrace the idea of creating a new business model that's designed for the digital economy and not stay stuck with what worked well in the good old days. Because, like it or not, those good old days were part of another era. And while that might make for beautiful nostalgic stories of how it all used to be, it's not the future.

Once CEOs are prepared to embrace an entrepreneurial and transformational mindset, they then need to do what it takes to ensure they have a senior leadership team which is aligned with that new way of thinking. And while that might not be easy or kind, it's a job that needs to be done.

CEOs also need to ensure the company is equipped with leaders who know how to embed innovation into the organisation, who know how to nurture a digital economy workforce, and who know how to identify, acquire and get the most out of start-ups.

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It's also important CEOs recognise that business model innovation doesn't need huge budgets and large teams. That's the antiquated R&D approach which some old-timers might be familiar with. But let's not forget that many of the new business models of our era are created by innovative entrepreneurs in start-ups with no money.

As Professor Thales Teixeira has explained, using innovative new business models, start-ups steal customers by breaking the links in how consumers discover, buy and use products and services.

Instead of taking on the DHLs and Nikes of the world head-on, small businesses peel away a piece of the consumer purchasing process, and Thales calls this process Decoupling, which is identifying activity in the customer value chain that can be performed separately from the other activities.

So, while CEOs need to be clear about their offensive strategy and create new business models, they also need to protect their companies from this decoupling process by strengthening the weak links in their organisation.

Because the notion of transformation in traditional firms is quite a nebulous word for some people, let's look at a few examples.

A decade ago, the electronics retailer Best Buy was under immense pressure from Amazon, and it was fighting for its survival.

After Amazon's arrival, the game changed and what were once Best Buy's most important assets - location and scale - turned into liabilities. Customers did their window-shopping at Best Buy and did their shopping online at Amazon. Best Buy had become a showroom - as have many other brick and mortar retailers we're familiar with.

Best Buy's profits plunged, and many were predicting a slow and painful death for the company. Then in November 2012, Best Buy's chief executive Hubert Joly unveiled a new strategy to slow the decline.

His plan was called "Renew Blue" and back then, the five outcomes it was intended to achieve were to:

1. Reinvigorate the customer experience, which involved offering customers unique benefits and exclusive membership programs, while continuing to develop a multi-channel shopping experience.
2. Attract and grow "transformational leaders" and energise employees to deliver extraordinary results.
3. Work with vendors to innovate and drive value.
4. Increase the company's return on invested capital by growing revenue and efficiency.
5. Make the world a better place through recycling efforts and providing teenagers with access to technology.

The Renew Blue transformation capitalised on Best Buys' two competitive advantages, which were scale and location.

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They found ways to narrow the gap between online and in-store sales, stores became used as both warehouses and pick-up points and they expanded product offerings. This was a business strategy in which technology was one of the enablers.

The concept of stores-within-stores saw Samsung and Microsoft opening up in Best Buy stores, and in 2018 Google announced its new Shopping Actions partnerships with Best Buy.

Shopping Actions is of course part of Google's own transformation and the partnership with Best-Buy is a form of collective entrepreneurship. A business model which allows both parties to share the risks and rewards of getting closer to the customer.

Fast-forward to the 2019 Adobe Summit in Las Vegas, Chairman and CEO of Best Buy Hubert Joly said, "Ten years ago at Best Buy, we thought "Amazon will kill us."

Seven years after the launch of their Renew Blue transformation, Best Buy is in much better shape and has even moved on to reinventing its future trajectory with a transformation they've called "Best Buy 2020: Building the New Blue." Which involves developing and selling solutions instead of just products.

While Hubert Joly is at the helm, Best Buy will continue to transform and reinvent its future.

Then there's Daimler - another example of transformation. The company was already the world's leading smart city transportation service provider with its Car2go venture and it had partnered with software companies to create new smart mobility solutions and services.

Then Daimler joined forces with its neighbour BMW to bring their car-sharing services Car2Go and DriveNow under one roof. And many other traditional car makers are following suit.

In the consulting space, McKinsey has unbundled its offerings to provide software and technology-based analytics that can be embedded in a client's business. This new service includes pricing and promotion tools to improve the return on sales, organisational health indices and benchmarking solutions.

And on a much smaller scale, I've transformed my own business model. For two decades I provided my consulting expertise to a few customers at a time. Now I provide it to thousands of customers at a time via the CXO Transform platform and we've gone on to partner with several well-established global organisations, which results in a win for us and our partners.

The reinvention of business models can and should happen in every size and type of company, if it wants to capitalise on the digital economy.

There's an abundance of innovative business transformations to get inspired by, and the staff and stakeholders of any company that isn't on a journey of legitimate transformation, should take steps to change that or face the inevitable.

But the reality is, regardless of what they achieved in the past, not every CEO is cut out to lead in the digital economy, and that's something that every board needs to be mindful of.

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Most established companies have a great deal of value. The challenge for the CEO is to move that value into a new form and build on that value in new and innovative ways.

This will inevitably mean leaving behind some elements of the old organisation, which could include products, processes, people and more.

And all this needs to be done while keeping the trusty old business in motion, because the company depends on its traditional revenue and profits, until it can rely on a new business model that's fit for a digital world. This is why it's critical companies allocate adequate resources to both their operations and their transformation, because compromising on either could spell disaster.

Nostalgia is a pleasant indulgence, but it won't keep a company in business, and it needs to make way for foresight, re-invention, and a new future, which needs to focus on the value proposition and the capabilities required to create that new future.

Changing from one business model type to a more effective one in order to defend or regain a company's competitive advantage means managing a deep strategic renewal process that includes a shift in the firm's dominant logic and mind-set.

Innovation must be at the very core of every business model transformation, and this requires entrepreneurial leadership which should be intensely focused on exploiting new opportunities. And while there's no magic formula to a successful business model, it's plain to see that two of the common characteristics in many of the most successful companies of our time are now Personalisation and Platform.

Even after a successful transformation, in the way that Best Buy and Daimler is doing, companies need to continue to rejuvenate their business models to remain competitive in a world that's now in a constant state of transformation.

Transformation is greater than the sum of its parts, and while almost every company has technology projects underway, let's understand what the real transformation for the company is, and how that will enable the company to thrive in the digital economy. Then we can appreciate the role different projects and parts play in the overall transformation.

The reality is that right now there are thousands of digital projects taking place, which are not contributing to an overarching strategic transformation of the business. And as cool as some of them might sound, many are nothing more than random acts of digital sugar coating. And while that might give some people immediate gratification, it does little for the long-term health of the company.

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

"We can't solve problems by using the same kind of thinking we used when we created them".

How is your company solving the problems it created, which could offer start-ups the opportunity to steal your customers?



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