



How To Develop and Implement a New Business Model

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Today's Presenters



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Questions we will address today

- What are ways to diagnose my current model? Understanding compromises/limitations.
- How can I apply lessons from successful business models in other industries?
- How can I develop innovative business model options?
- What key success factors can I learn from successful innovators?
- What criteria should I use in evaluating business model ideas?
- How can I build business model innovation capabilities and platforms?

What is a business model?

Value proposition

Target segment(s)

Product/ service offering

Revenue model

Business model

Value chain

Cost model

Organization

Operating model

What is and isn't business model innovation (BMI)?

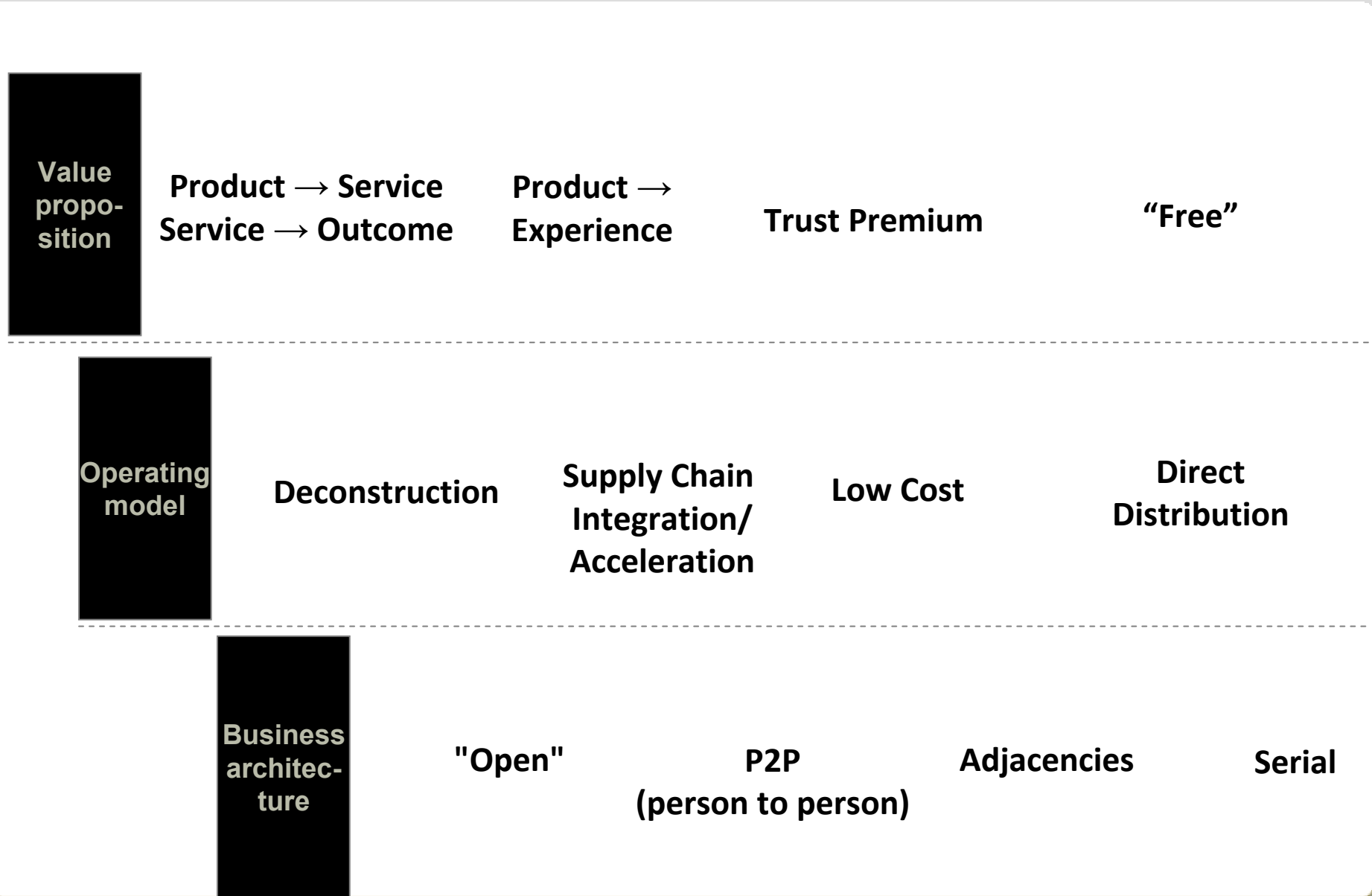
BMI is:

- Change of multiple business model components...
- ...leading to delivery of a superior value proposition

BMI is not:

- Single function's strategy
- Mere product, service or technological innovation

How can I leverage examples from other industries?



Why is business model innovation relevant today?

- BMI can help
 - Strengthen value proposition
 - Reduce costs
 - Reduce unpredictability
 - Reduce capital intensity

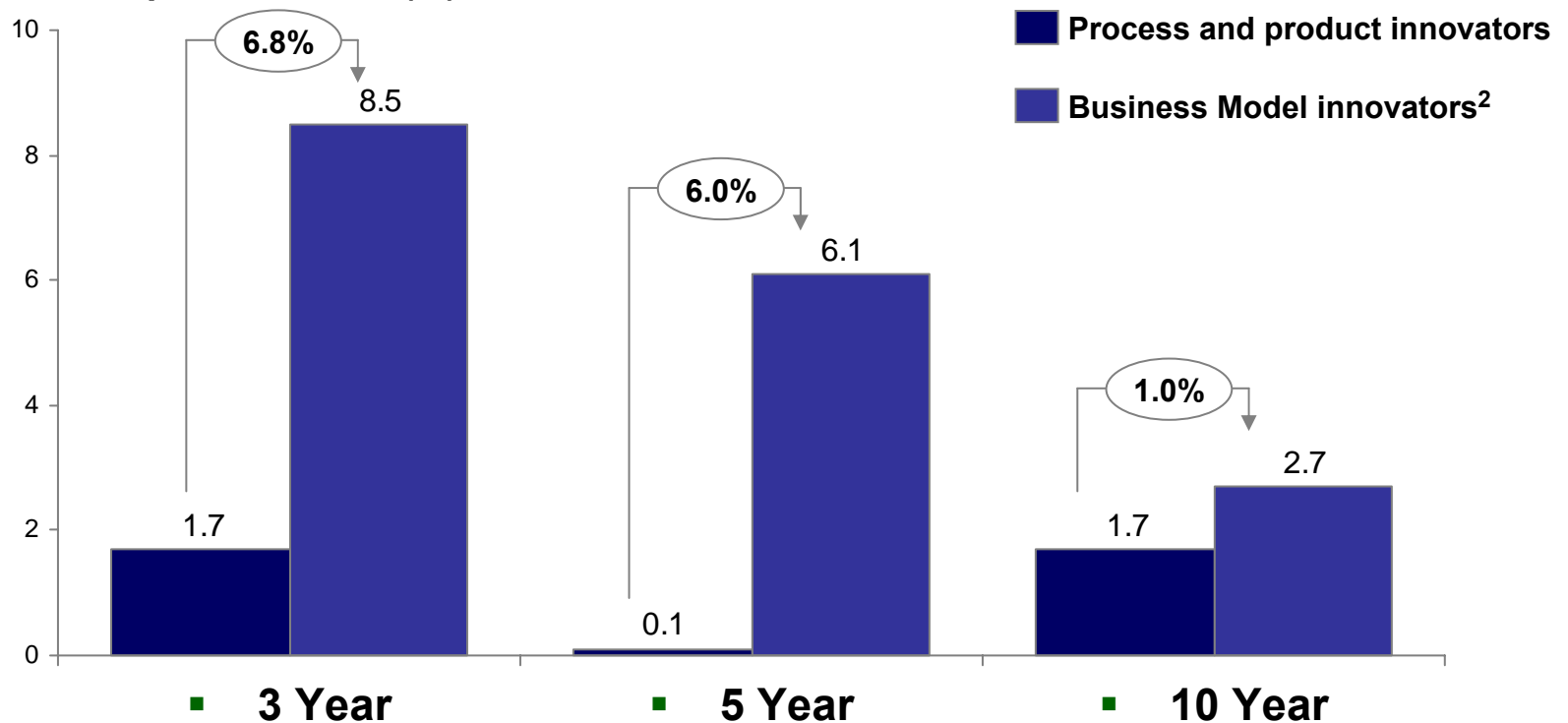
- Companies that flourish in downturns frequently do so using BMI

- Bold moves frequently more feasible in a recession
 - More leverage vs internal and external stakeholders

- BMI more durable than mere product or process innovation

What can business model innovation deliver?

Total Shareholder Returns Premium over industry peers, median performance¹ (%)

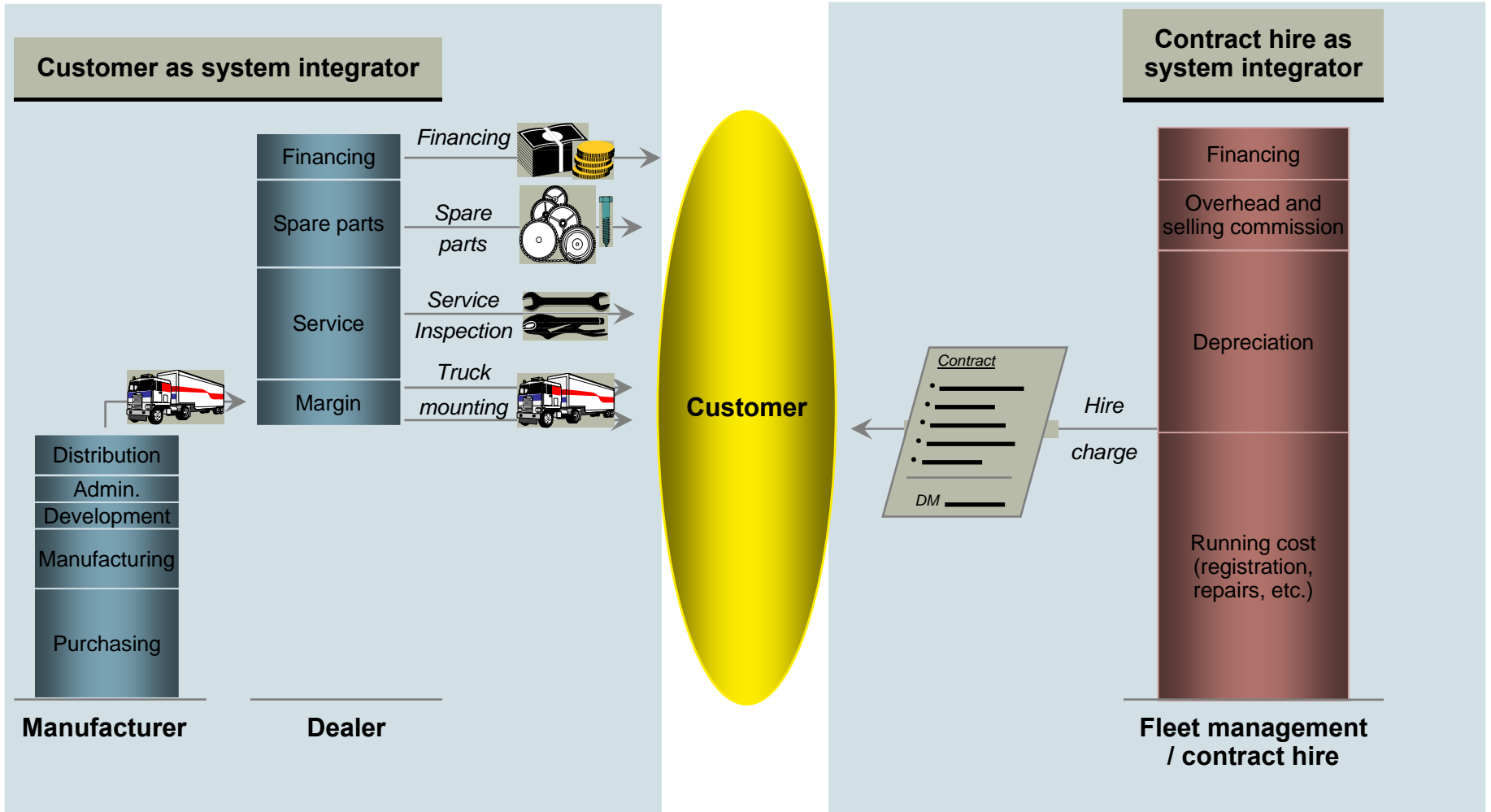


1. TSR premium is defined as the difference between the Innovator's TSR return and its industry peers 2. Includes News Corp, Dell Inc, Vodaphone, Goldman Sachs, Reliance Industries, eBay and Hewlett-Packard; Business Model Innovator defined as Top 50 most innovative company for which business model was the top or equal rationale for selection as an innovator (innovation choices included business model, customer experience, processes, products and services)

Note: Companies were selected as Innovators based on a joint BCG- BusinessWeek survey sent to executives at the 2,500 largest global corporations by market value in Nov 2007 (2,950 responses) as well as BusinessWeek readers in senior management; Criteria weighting was 80% for survey responses, 5% each for 3 year revenue and margin growth and 10% weight for stock returns; Financial metrics are for the period ending 31 December 2007

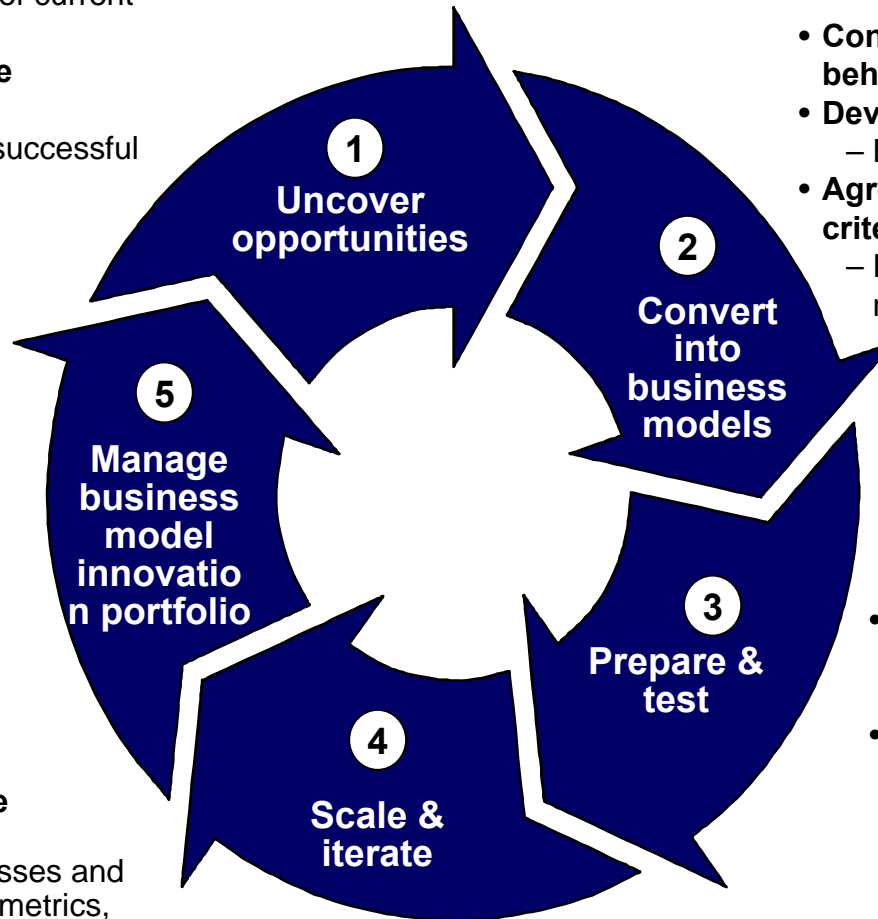
Source: 2008 BusinessWeek/BCG Innovation to Cash Survey; BCG ValueScience analysis

Auto Manufacturer: From selling trucks to selling kilometers



How can I develop and implement a new business model?

- **Diagnose current model**
 - Compromises/ limitations of current model
- **Use multiple lenses to ideate**
 - Customer view
 - Force fitting examples of successful BMs in other industries
 - etc.



- **Convert ideas to advantaged behaviors**
- **Develop innovative BMI options**
 - End-to-end model
- **Agree and apply evaluation criteria**
 - Implement, pilot or table recommendation

- **Actively manage portfolio of BMs**
 - Size, timing, payback, risk level
 - Fit with broader strategic environment
- **Scale up selected innovative business models**
 - Management team, processes and procedures, performance metrics, communication plan
- **Continue to iterate**

- **Develop and implement pilots**
 - Prioritize and prepare for broader implementation
- **For immediate implementation recommendations, focus on step 4**

A business model checklist

		Key components	Rating relative to competitors			Opportunity to innovate?
			Advantaged	In-line	Disadvantaged	
Value Proposition	Product/service offering	Clarity of value proposition	■	■	■	<input type="checkbox"/>
		Compelling "value for money" trade-off	■	■	■	<input type="checkbox"/>
	Target segment(s)	Clarity of target segment and their needs	■	■	■	<input type="checkbox"/>
		Ability to consistently meet target customers' needs	■	■	■	<input type="checkbox"/>
	Revenue model	Competitiveness of pricing structure and levels	■	■	■	<input type="checkbox"/>
		Balance of customer needs and profitability	■	■	■	<input type="checkbox"/>
Operating Model	Value chain	Competitive/ strategic advantage of in-house activities	■	■	■	<input type="checkbox"/>
		Suitability of asset base and utilization levels Appropriateness of sourcing policies	■	■	■	<input type="checkbox"/>
	Cost model	Ability to leverage opportunities (e.g., RDE sourcing)	■	■	■	<input type="checkbox"/>
		Structure supports strategy	■	■	■	<input type="checkbox"/>
	Organization	Appropriate infrastructure (e.g., processes)	■	■	■	<input type="checkbox"/>

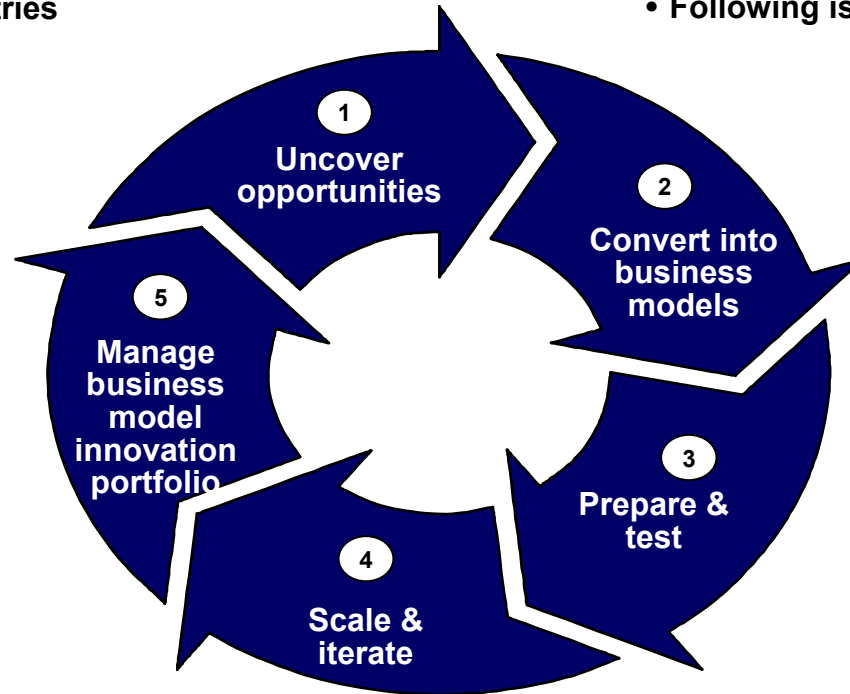
How can I develop business model options?

Value proposition			Operating model		
Offering	Target segment(s)	Revenue model	Value chain	Cost Model	Organization
Product-based	Close-in	Supplier economics	Targeted	Fixed, rigid	Centralized
Product	Existing segment <ul style="list-style-type: none"> End-user Intermediary/ decision-maker 	Per unit sold	Individual stage focus <ul style="list-style-type: none"> R&D Supply Manufacturing Distribution / logistics Sales 	In-house batch	Focused, top-down
Product bundle					
Service	Alternatives <ul style="list-style-type: none"> Value Premium Specialty/ Niche 	"Razor model": complementary products/services	Horizontal integration	In-house scale	Multi-divisional
Service bundle					
Experience / Relationship	Competitors' Underserved	Subscription / license	Vertical integration	Selective out-source	Empowered teams
Outcome / Facilitation					
Outcome-based	New markets or adjacencies	Dynamic pricing	Orchestration	Open source	Open, community-based
	Distant	Per unit used		Asset free	
		Results-based / risk-sharing		Variable, flexible	Distributed
		Customer economics			

What key success factors can I learn from successful innovators?

- Spot and break customer compromises
- Redefine market boundaries
- Challenge industry assumptions
- Borrow from other industries

- Re-engineer whole business model
-- not one function or product
- Don't protect the past
- Following is usually OK



- Get control over innovation project portfolio
- Develop BMI capability and organizational platform
- Avoid innovation "skunk works"

- Strong leadership
- Test portfolio of ideas
- Celebrate learning

- Leverage parent's assets, but sever the "tethers"
- Ensure freedom of decision making from core

What criteria should I use in evaluating business model ideas?

- Does the new business model have the potential to become a **major (over 20%) part of your business** in the next 5 years?
- Are key elements of new business model **internally coherent and tailored** to achieve profitability?
- Is senior management fully **bought-in** on the idea?
- Is it possible to have **dedicated management** for the new business with sufficient freedom to operate?
- Does the new model **create advantage** over competitors?

What can go wrong?

1. Project portfolio blindness

- Lack of transparency
- Hundreds of irrelevant activities

2. Scale-up challenge

- “Death by pilot”
- Limited time/scope of initiatives
- No efficient scale-up plans

3. Old favorites

- Focus on old concepts limited in risk, close to traditional business, restricted impact

4. Innovation "skunk works"

- Responsibility for innovation remote from the line
- Ideas never re-enter

5. Ideation trap

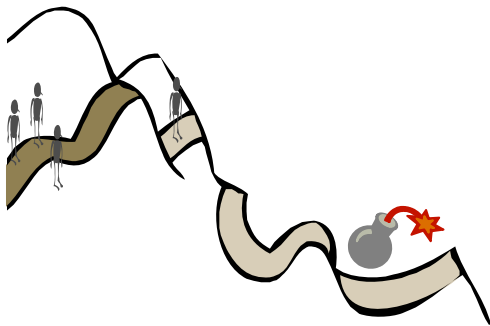
- Brainstorming insufficient
- Innovation process required

6. Myopia

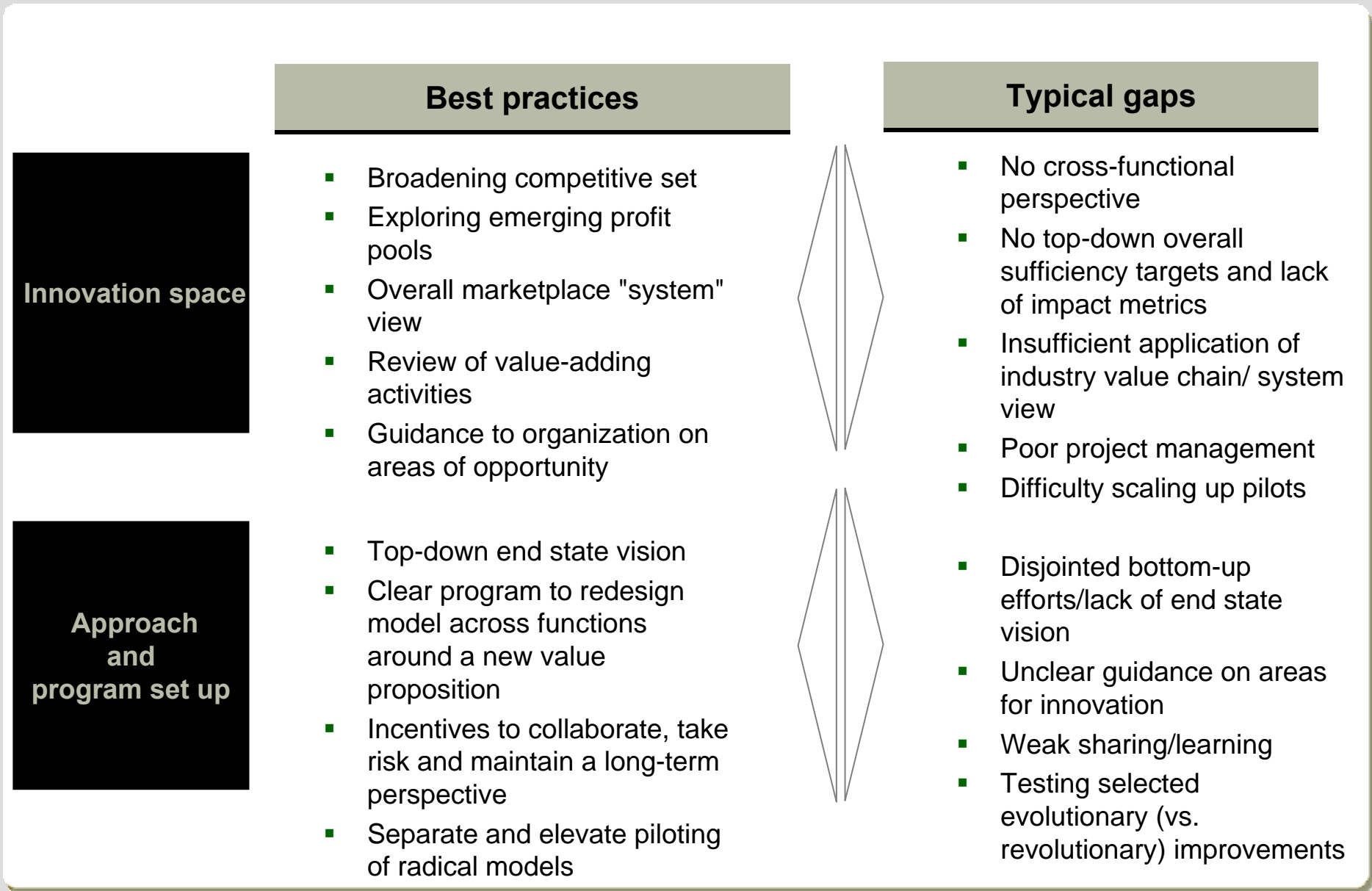
- Too focused on internal vs. customer view

7. Short-termism

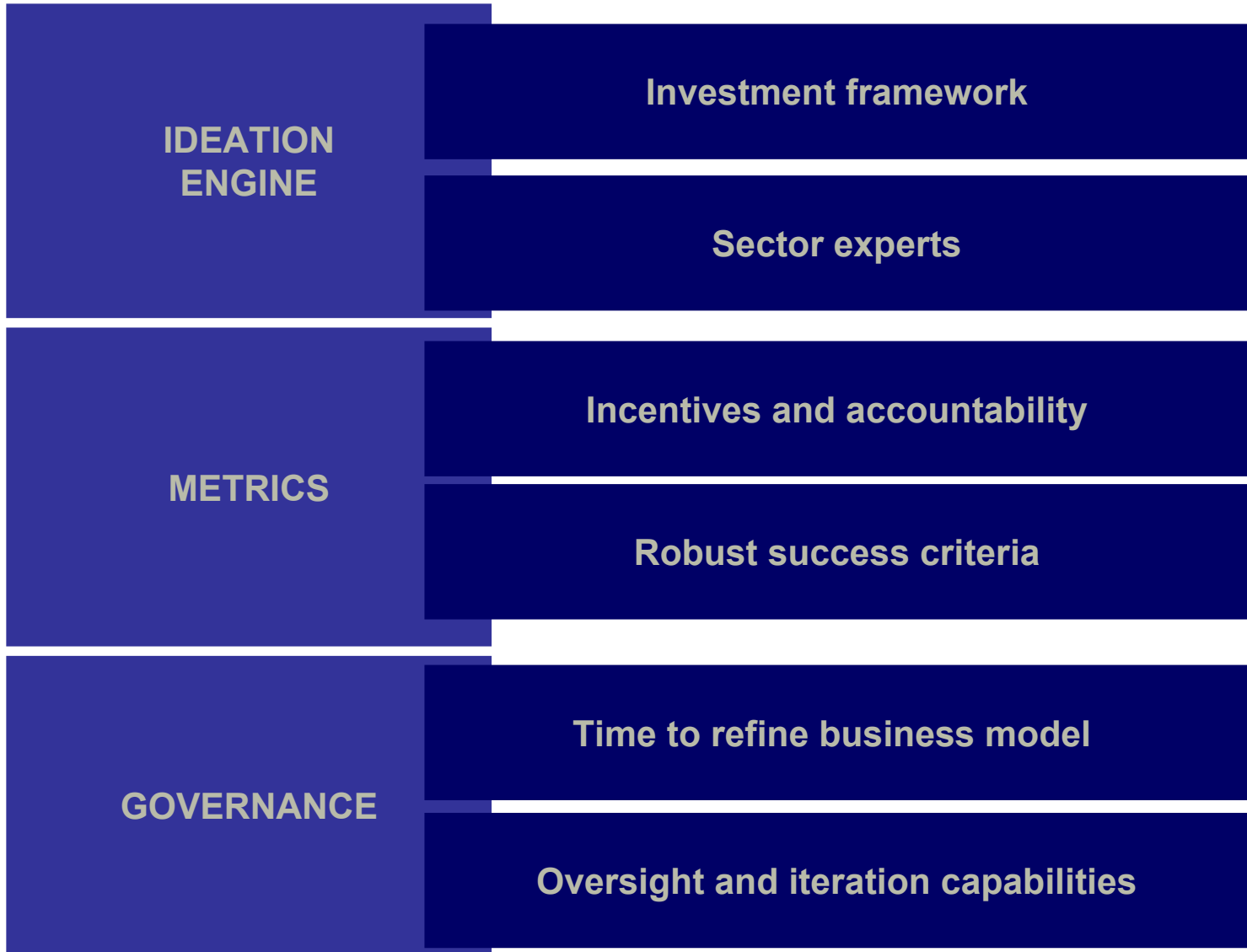
- One-off near-term focused efforts
- Lack of investment in long-term revolutionary changes



What are best practices in business model innovation development?



How can I build a business model innovation capability?



Recap

- Business model innovation (BMI) is an often neglected dimension of innovation...
 - Companies focus resources on product/ process innovation, little attention to innovating business model
- ...and a powerful value creation tool: business model innovators tend to outperform product or service innovators, according to the BCG annual innovation survey
- Business model innovation is an approach to changing a company's basis for competition
 - Not a traditional product or functional strategy
 - A useful lever to accelerate company's growth, address regulation or disruptive technology entry, etc.

Recap Continued

- BCG explored a set of successes and failures across industries to synthesize key success factors, pitfalls and ways to overcome them,
- From these learnings, BCG has developed a proprietary approach to help with BMI
 - Five key steps: 1. uncover opportunities; 2. convert into business models; 3. prepare and test; 4. scale and iterate; and 5. manage BMI portfolio
 - Each step requires a specific set of capabilities and metrics
- A start may include getting a grip on a company's innovation project portfolio, broadening the competitive set and industry definition, and setting up a business model innovation platform

Final Thoughts

- Look at underserved, defecting or dissatisfied customers and the non-users.
- “If we were to innovate our business model in this way, how would we look at our own business.”
- Use the business model innovation checklist in this presentation and ask; How robust is our current business model?
- Start before you really need business model innovation
 - More pressure exists when you are forced to change
 - Mobilize key minds in the organization

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