Enterprise Business Models

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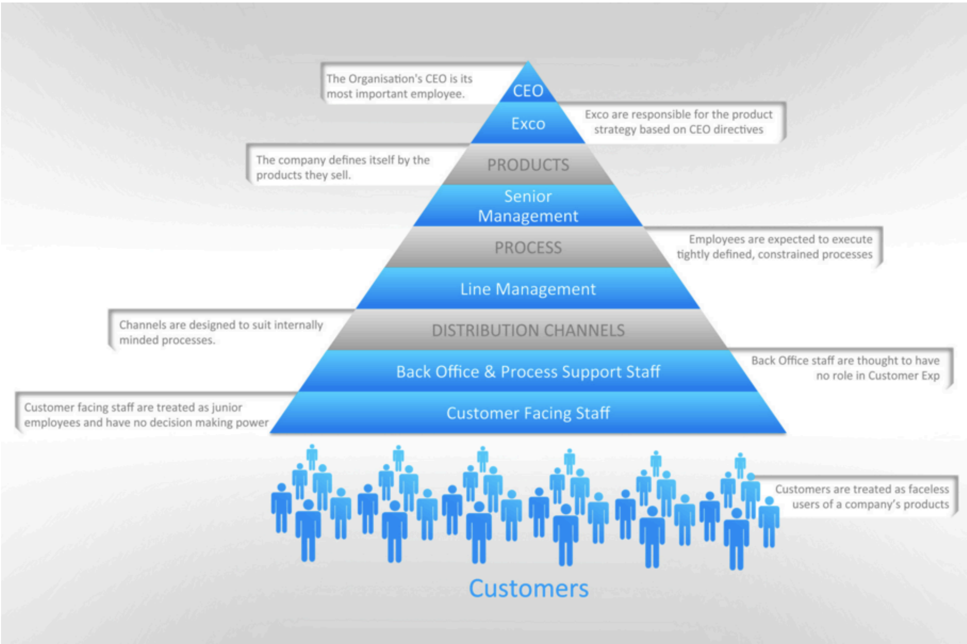
Chap. 3. Innovation in Business Models

3.1 “Traditional” vs. Emerging Business Models

A. Traditional Business Models

If we look at a typical company operating in any industry today, the CEO arguably has the most important job and responsibilities within the business. In fact, it’s up to the CEO to make sure his/her business is successful both now, and in the long run. So why do some CEOs do their jobs well, and still see poor turnovers and customer losses on a daily basis. It might not have anything to do with the CEO, but rather the business model itself.



Traditional business models place the CEO at the top of the company pyramid. He (or she) has to make decisions that get passed down to the rest of the company. And sitting at the bottom are the customer-facing staff, and worse, below them are the customers. If you’ve ever played broken telephone you’ll understand what a problem this is for the CEO. He doesn’t know it, but his customer-facing staff really aren’t getting the right message, and worse, the last recipients of that message are the customers. Although the business model seems to work, it’s based on a few fundamental misconceptions.

Misconception #1 – The CEO is solely responsible for multimillion Rand decisions.

If you look at the level of interactions that customer facing staff have on a daily basis, and their ability to affect whether customers are happy or not, each employees actions and decisions could potentially make a company millions of rands – or not. If customer facing staff are treated as low level employees, their freedom to interact with, and understand the customer will be hampered. The customer cannot see how internal strategies can benefit them, they only see what is in front of them, and it's important that what they are faced with is an intuitive and empowered employee.

Misconception #2 – Customer facing staff are solely responsible for the customer's experience.

Even though customer facing staff are responsible for the customer's experience, they aren't the only ones. After all, a customer may look at a website, as well as use a product or service of the business. If physical attributes of the company are out of sync with the customer, it's near impossible for customer facing staff to fix it – and unrealistic to expect them to. Customer facing staff have a lot of power when it comes to influencing the customer's perceptions; but customer centric products, services and company structure are an essential foundation that reinforces the overall experience.

Misconception #3 – Products and services should be suited to the business.

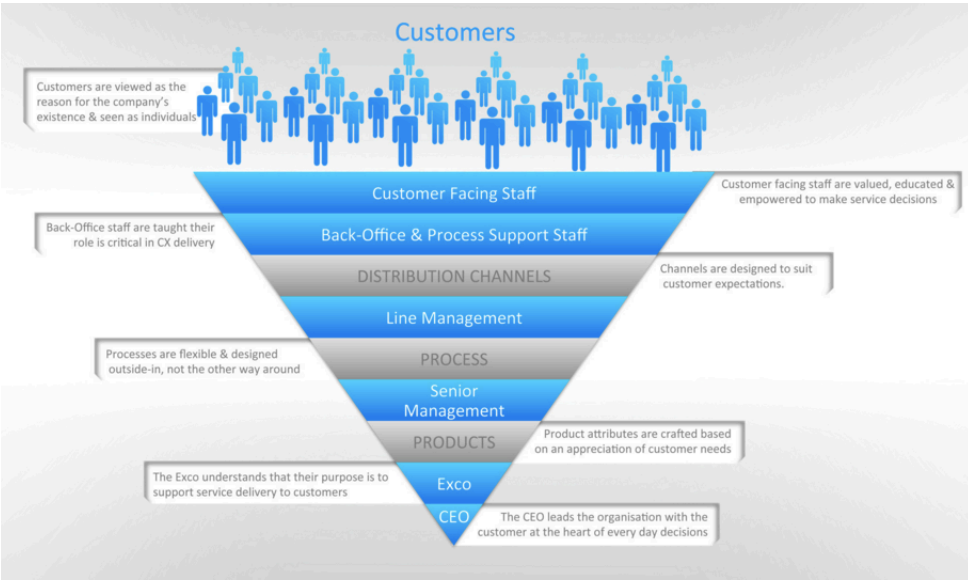
It is far easier to understand what the customer needs, and deliver it to them, than it is to convince them that they are getting what they want, when they aren't. Once again, customer facing staff cannot move mountains, but an entire organisation can manage a little intuitive research and customer prioritisation easily. If each decision is made with the customer in mind, end products and customer interactions will make a lot more sense. That means that whether you are in product development, management or any other position, you can contribute to the customer experience.

Misconception #4 – Rigid guidelines and processes make for a better work force.

While finite processes and systems do make for better business, the problem is the way that these are structured. If a process takes away an employee's freedom to make decisions, then it doesn't work. Similarly, if focus is placed solely on monetary targets, the customer becomes faceless and so do your employees. If you are too focused on these rigid targets, you may not be as sensitive to what your company and customers really need. Flexibility in the workplace is just as important as structure; it's the balancing of the two that makes for a successful and profitable company.

Misconception #5 – The customer needs what the business is offering, so they will be loyal.

The customer's need isn't as simple as one would like to believe. Often quality and need for products and services are based on perception rather than fact. While you may have a superior offering to your competitors, they may offer a different experience entirely. The experience that a customer has when interacting with a brand can often be the deciding factor in their loyalty and support of a brand. Remember, your product may be essential, but your competitors may offer something similar or the same. Customers are loyal to brands that act as an extension of themselves, allowing them more freedom to express themselves than they would otherwise have. Think Moleskin, Apple, and Starbucks; they all offer a quality product with the addition of a worthwhile experience and genuine value in the eyes of the customer.

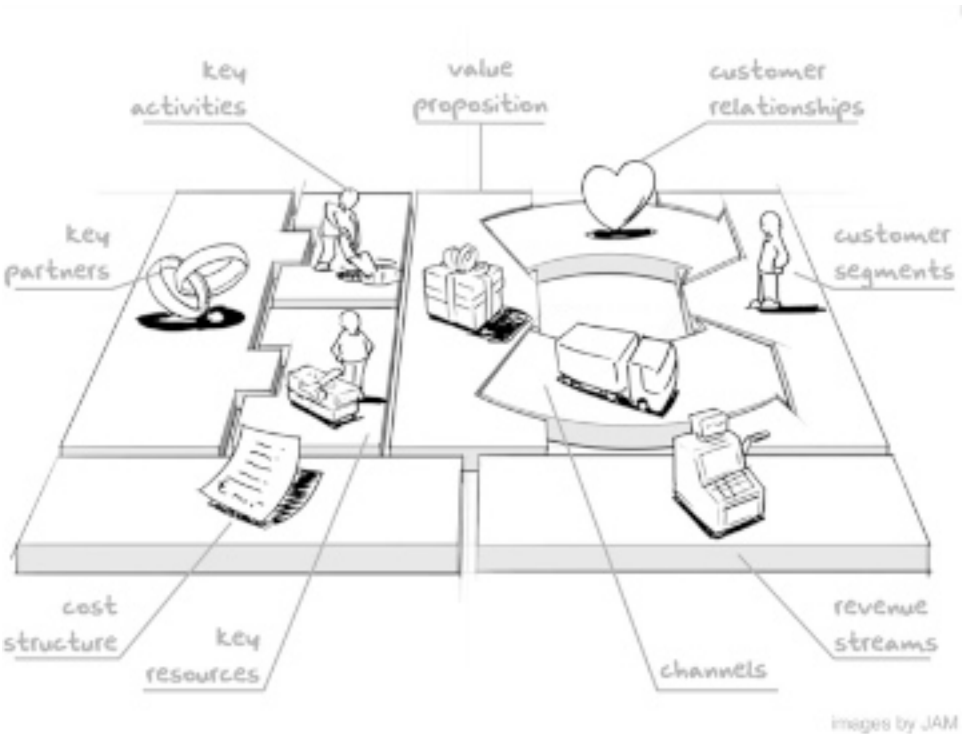


So the challenge for every CEO doing business today is to overcome these misconceptions and to flip the traditional on its head. It may seem daunting to hand over all that responsibility, but the fact is that there is no real handing over. In the eyes of the customer, this upside down pyramid is their reality. They expect to be understood, to receive value for their money and to be treated like a person. We are all customers on a daily basis, and if we take our mind-set out of the office, it's what we expect too. Simply put, the real challenge is for CEOs to put themselves, and their companies on the same page as the customer; and to address the customer's key role in the success of their business.

B. Modern Business Models

Business model Innovation

The business model is how the organization works and earns its money. A careful thought process which is constantly challenged in modern organizations. In more traditional organizations which still do exist, this model was once invented and changed slightly over the years. Various stakeholders prevented the necessary change and modern companies can blow them away in a very short period of time. The business model canvas is one of the tools used in creating a conversation with entrepreneurs, managers and business owners. The simple exercise of mapping their own organization opens a lot of opportunities by asking the right questions.
This is how the canvas works:



Work-life relations

In modern life, modern businesses and modern families everyone's looking for the new paradigm. Life has changed and will never be the same again. Work is not a place where we go to in the morning, work is what we do no matter where we are. Work is something we choose to do and we change it if we do not like it anymore. Change is the only constant as they say. 'Carpe diem' is in Latin, so must be over 2000 years old, and yet cease the day is an actual theme in this era. More than ever people get more and more stimuli than ever before. Constantly on the search for news; 'infobese'. It is time to get work and life balanced. Cease it, you can take it with you when it is too late.

The art of making choices

One of the most powerful things to learn here is that everything is a choice. EVERYTHING. The only problem is that we are not conscious of the fact that we are making choices constantly and that we are not consciously making them. Think of it? How many choices do you consciously make? What does that imply?

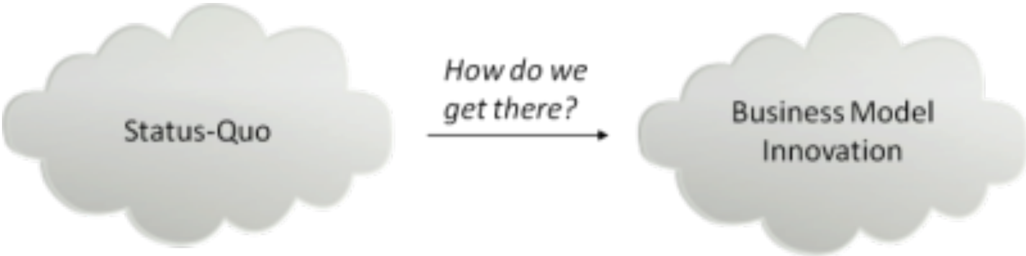
3.2. Examples of Innovative Business Models

A great example is Syngenta. The Swiss agrichemical company has launched a range of programs to drive growth in Africa. One specific program was an innovative way to package and distribute crop protection chemicals to smallholders (individual farmers) in Kenya. The program, called uwezo, fits the pattern I described above. Syngenta approached the problem holistically. Beyond simply developing new packaging, it invested heavily in training programs to teach farmers how to use its product. It built an ecosystem that included retail distributors. And the effort was inspired by a purpose that ran deeper than a pure profit motivation – a desire to improve smallholder productivity, which can help to feed the world's still-surging population.

The catalyst for uwezo was Nick Musyoka, whose previous experience at consumer packaged goods companies helped him to conceive of the innovative business model. Musyoka in fact borrowed a well-known CPG model – the so-called sachet model that drove penetration of products like shampoos, soaps, and detergents by cleverly combining a single dose package and investments in consumer education to help drive behavior change.

As another example, imagine traveling back to 2007 and telling people that two of the leading ereader manufacturers would be Amazon.com and Barnes and Noble. People would say that's crazy. But these companies had unique assets and could plug into specialist providers to develop device competencies in shockingly short periods of time. While the number of fourth era success stories is still limited, look close enough and you see big companies doing amazing things.

3. Implementing Business Models



- **Business Model**
  - **A firm's business model is its plan or diagram for how it competes, uses its resources, structures its relationships, interfaces with customers, and creates value to sustain itself on the basis of the profits it generates.**
  - **The term "business model" is used to include all the activities that define how a firm competes in the marketplace.**
- **Timing of Business Model Development**
  - **The development of a firm's business model follows the feasibility analysis stage of launching a new venture but comes before writing a business plan.**
  - **If a firm has conducted a successful feasibility analysis and knows that it has a product or service with potential, the business model stage addresses how to surround it with a core strategy, a partnership network, a customer interface, distinctive resources, and an approach to creating value that represents a viable business.**

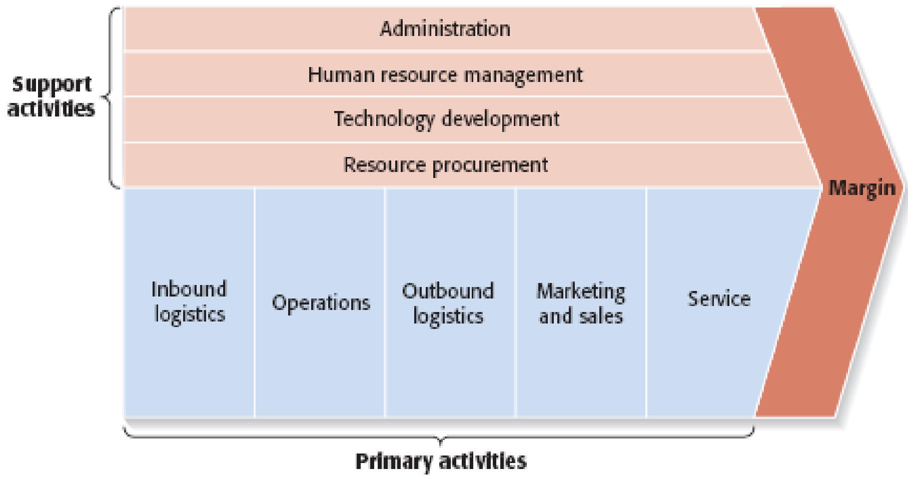
Importance of a Business Model

Having a clearly articulated business model is important because it does the following:

- Serves as an ongoing extension of feasibility analysis. A business model continually asks the question, "Does this business make sense?"
- Focuses attention on how all the elements of a business fit together and constitute a working whole.
- Describes why the network of participants needed to make a business idea viable are willing to work together.
- Articulates a company's core logic to all stakeholders, including the firm's employees.

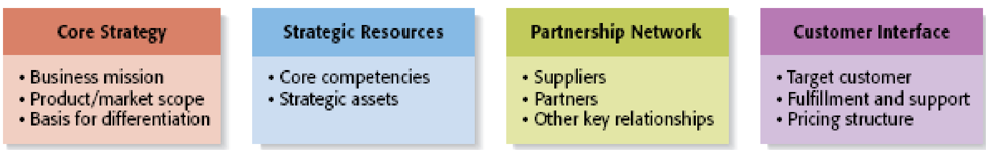
How Business Models Emerge

- The Value Chain
  - The value chain is the string of activities that moves a product from the raw material stage, through manufacturing and distribution, and ultimately to the end user.
  - By studying a product or service's value chain, an organization can identify ways to create additional value and assess whether it has the means to do so.
  - Value chain analysis is also helpful in identifying opportunities for new businesses and in understanding how business models emerge.
- The Value Chain



  - Entrepreneurs look at the value chain of a product or a service to pinpoint where the value chain can be made more effective or to spot where additional "value" can be added.
    - This type of analysis may focus on (1) a single primary activity of the value chain (such as marketing and sales), (2) the interface between one stage of the value chain and another (such as the interface between operations and outgoing logistics), or (3) one of the support activities (such as human resource management).
    - Fatal Flaws
      Two fatal flaws can render a business model untenable from the beginning:
      A complete misread of the customer.
      Utterly unsound economics.

Four Components of a Business Model



- Core Strategy
  - The first component of a business model is the core strategy, which describes how a firm competes relative to its competitors.
- Primary Elements of Core Strategy

– Mission statement.
– Product/market scope.
– Basis for differentiation.

Business Mission	**A firm's mission, or mission statement, describes why it exists and what its business model is supposed to accomplish. For example, Southwest Airlines' Mission Statement is as follows: "The mission of Southwest Airlines is dedication to the highest level of customer service delivered with a sense of warmth, friendliness, individual pride, and company spirit."**
Product/Market Scope	**A company's product/market scope defines the products and markets on which it will concentrate. The choice of products has an important impact on a firm's business model.**

PRIMARY ELEMENTS OF A CORE STRATEGY

Basis of Differentiation	**It is important that a new venture differentiate itself from its competitors in some way that is important to its customers. If a new firm's products or services aren't different from those of its competitors, why should anyone try them? Firms often differentiate themselves on the basis of a cost leadership strategy or a differentiation strategy.**

- Strategic Resources
  – A firm is not able to implement a strategy without resources, so the resources a firm has affect its business model substantially.
    - For a new venture, its strategic resources may initially be limited to the competencies of its founders, the opportunity they have identified, and the unique way they plan to serve their market.
  – The two most important strategic resources are:

- A firm's core competencies.
- Strategic assets.

Core Competencies	**A core competency is a resource or capability that serves as a source of a firm's competitive advantage over its rivals. Examples are Sony's competence in miniaturization, Dell's competence in supply chain management, and 3M's competence in managing innovation.**

Strategic Assets	**Strategic assets are anything rare and valuable that a firm owns. They include plant and equipment, location, brands, patents, customer data, a highly qualified staff, and distinctive partnerships.**

- Importance of Strategic Resources
  - New ventures ultimately try to combine their core competencies and strategic assets to create a sustainable competitive advantage.
  - This factor is one that investors pay close attention to when evaluating a business.
  - A sustainable competitive advantage is achieved by implementing a value-creating strategy that is unique and not easy to imitate.
  - This type of advantage is achievable when a firm has strategic resources and the ability to use them.
- Partnership Network
  - A firm's partnership network is the third component of a business model. New ventures, in particular, typically do not have the resources to perform key roles.
  - In most cases, a business does not want to do everything itself because the majority of tasks needed to build a product or deliver a service are not core to a company's competitive advantage.
  - A firm's partnership network includes:
    - Suppliers.
    - Other partners.

Suppliers	**A supplier is a company that provides parts or services to another company. Intel is Dell's primary suppler for computer chips, for example. Firms are developing more collaborative relationships with their suppliers, and finding ways to motivate them to perform at higher levels.**
Other Key Relationships	**Along with suppliers, firms partner with other companies to make their business models work. An entrepreneur's ability to launch a firm that achieves a sustainable competitive advantage may hinge as much on the skills of the partners that are involved as the skills within the firm itself. The most common types of partnerships are shown on the next slide.**

The Most Common Types of Business Partnerships

Partnership Form	Description
Joint venture	An entity created by two or more firms pooling a portion of their resources to create a separate, jointly owned organization
Network	A hub-and-wheel configuration with a local firm at the hub organizing the interdependencies of a complex array of firms
Consortia	A group of organizations with similar needs that band together to create a new entity to address those needs
Strategic alliance	An arrangement between two or more firms that establishes an exchange relationship but has no joint ownership involved
Trade associations	Organizations (typically nonprofit) that are formed by firms in the same industry to collect and disseminate trade information, offer legal and technical advice, furnish industry-related training, and provide a platform for collective lobbying

- Customer Interface
  - The way a firm interacts with its customers hinges on how it chooses to compete.
    - For example, Amazon.com sells books over the Internet while Barnes & Noble sells through its traditional bookstores and online.
    - Dell sells strictly online while HP sells through retail stores.
  - The three elements of a company's customer interface are:
    - Target customer.
    - Fulfillment and support.

- Pricing model.

Target Market	**A firm's target market is the limited group of individuals or businesses that it goes after or tries to appeal to. The target market a firm selects affects everything it does, from the strategic assets it acquires to the partnerships it forges to its promotional campaigns.**
Fulfillment and Support	**Fulfillment and support describes the way a firm's product or service "goes to market" or how it reaches its customers. It also refers to the channels a company uses and what level of customer support it provides. All these issues impact the shape and nature of a company's business model.**
Pricing Structure	**The third element of a company's customer interface is its pricing structure, a topic that will be discussed in more detail in Chapter 11. Pricing models vary, depending on a firm's target market and its pricing philosophy.**

- Business Models
  - It is very useful for a new venture to look at itself in a holistic manner and understand that it must construct an effective "business model" to be successful.
  - Everyone that does business with a firm, from its customers to its partners, does so on a voluntary basis. As a result, a firm must motivate its customers and its partners to play along.
  - Close attention to each of the primary elements of a firm's business model is essential for a new venture's success.

NOTE FOR THE IMPLEMENTATION OF BUSINESS MODEL

- Business Model Innovation needs a clear plan that defines which structures and processes of an organization have to be designed, adapted or phased out
- Business Model Innovation has to create value – meaning that the long-term benefits / values are higher than the costs for designing and implementing innovative business models
- Business Model Innovation needs an approach that identifies all stakeholders of the transformation behind Business Model Innovation. Stakeholders must be included into the transformation process
- Business Model Innovation needs intelligent controlling mechanisms that track the success behind the implementation of Business Model Innovation. Objectives dedicated to Business Model Innovation, a set of relevant KPI and special reporting structures are important elements in that context

There are two main reasons why business model innovations do not work. It is either the front end is failing or it's the backend that isn't working. Of course these two must be working hand-in-hand in order to attain success.

Experimenting is essential. All business models need maturing. But due to fluctuations in the economy, the designed model oftentimes isn't the one implemented. Therefore, constant customer interaction is necessary. A business needs to constantly test its model, modifying it from time to time in order to arrive at a potential value proposition that is being adapted by the customers.

Secondly build a separate structure from that of the current model. Most of the times companies blend in both structures. However, when the need to switch back to a single model arises, chances are small that a business can still employ same marketing channels and strategy. In connection to this, an excellent human resource and marketing team that has lesser attachment to the old model structure is needed.

Lastly, venture enough money on your new business model. This implies the need for capital-not budget.

The important factor that must be considered for successful implementation is to constantly prepare the company for innovations. This way, businesses wouldn't have too much difficulty and would remain more or less, stable when adapting to changes.

END OF CHAPTER 3