



Business Model Innovation in the Digital Age

– An orientation guide for customers and consultants –
(Whitepaper)

Andreas Duffner, April 2016

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This is the third in a series of reports on relevant business areas in the digital age. The information is intended to point to essential topics for enterprises exploring their digital transformation.

The first article 'Customer Interaction in the Digital Age' was published in January 2016, the second article 'Enterprises and Organizations in the Digital Age' in February 2016 – both are available on d-transform's website.

Abstract

Digital business models are characterized by new technical platforms, customer and value driven products and processes, and digital 'Lego-blocks'. Using proven modelling methodologies, companies can create the right balance of digitized business models to accomplish the shift to a fast, demand-driven business in an unpredictable and speedy changing environment.

What are the drivers for business model innovation?

When talking about digitization, business models are in the center of all strategic considerations. Without further development or even a major change of their business models, companies are not able to unleash the real innovation power of digital technology.

Business models in the past were successful in helping enterprises to process repetitive operational tasks within stable environments. The digital world requires business models to develop to flexible, scalable and agile platforms automating transactional tasks while the operational focus remains on handling exceptions – based on experts' decisions, or in other words, the human touch.

Major shifts in customer engagements with transparency and new patterns of consumer behavior are pushing suppliers to focus on the demand side of their business. This requires advanced business models to be strong and competitive in both worlds: the supply side for operational efficiency and the demand side for managing unpredictable consumer behavior. Brand loyalty will be a buzzword casualty for the history books.

No more stable business environments! As we still optimize the supply chain of the house the demand management will jump into the driver seat!

The demand side of business models will be in the driver seat and determine the future success of business models. The forerunners in this approach are the fashion and retail industry with their personalization, omni-channel interaction management and emotional customer experience.

What are the characteristics of advanced *digital* business models?

As outlined above, the entire environment for companies is changing across all industries. Examples include consumer behavior, full transparency in real-time, new business networks, new industries, new competitors with disruptive solutions, and many more.

Enterprises have to react by turning towards business models that meet these digital world 'standards'. They are characterized by:

- **A (new) technical platform** – As business model foundation and infrastructure: scalable, agile, flexible, modularized and specialized (e.g. for product factories, B2B market places with contracting, payment or logistics);
- **Digital 'Lego-blocks'** – As plug-and-play tools to connect to supplier-networks and business partners (e.g. in the travel, airline and logistic/parcel industries);
- **New processes** – Reversed, customer and value driven (e.g. build-to-order), end-to-end, interlaced product and services, far beyond the previous industry specific model. Junkers, Claas and John Deere are excellent references. Processes for personalization, auctions and communities are becoming more important;
- **New products** – Configurable, de-coupled (e.g. products and software), individualized, but also unitized.

"A key trend is the development of technology-enabled platforms that combine both demand and supply to disrupt existing industry structures ..."

Keynote – Klaus Schwab;
World Economic Forum, Davos 2016

This list can create enormous impact when companies are looking beyond their inherent industry: A must since new competitors are attacking incumbents with disruptive offers (start ups in the financial markets, IT intruder into the automotive industry with driverless cars, IT intruder into the construction and mechanical engineering industry with robotics, ...). Creating ideas beyond the current *evolutionary business models* means to focus on *disruptive business models* which are characterized by a radical value- and service orientation, an open versus a proprietary business architecture and value creation in an unknown eco-system.

In both evolutionary and disruptive business models, companies are increasingly forced to make decisions in *real*, real time. Especially, to master the speedy change of consumer behavior, business models have to include advanced data analytic processes, tools, and the related expertise. We call this new world **BigData** – which includes a huge amount of data and very complex, fast changing, and less structured data. Demand driven companies with advanced BigData processes, tools and expert knowledge will definitely be in front of their industries.

That said, the positive results of a business model change will only happen if suppliers are using the momentum to streamline their business processes and –structures. In all major industries we still find huge and complex, very stable, hard-coded, and inflexible business processes preventing them to master the necessary change.

What is the recipe for *digital* business model innovation?

On one side of the coin there are the characteristics of the new digital models. Now, on the other side, we need to discuss how we design and implement the models and how we create the change processes.

Change process and the creation of an intrinsic and sustainable innovation culture ideally starts with the definition of the companies' vision, followed by the assessment of the existing *digital capabilities* (see previous whitepaper on enterprises and organizations), the unlocking of potentials, and the creation of digital use cases. These requirements are summed up in the new business model.

Companies can continue to use their business modelling methodologies/tools (e.g. Business Model Generation; Osterwalder/Pigneur 2010) to develop their models to the next *digital* stage. The 9 model building blocks remain in the focus, each of them enriched by the above mentioned digital capabilities. Apart of broad modelling experiences the guiding principle is strictly the customer perspective – for the entire design process (the right side of the Canvas Model; see exhibit 1).

“Adopting the customer perspective is a guiding principle for the entire business model design process. ...”

A. Osterwalder / Y.Pigneur;

Business Model Generation, New Jersey 2010

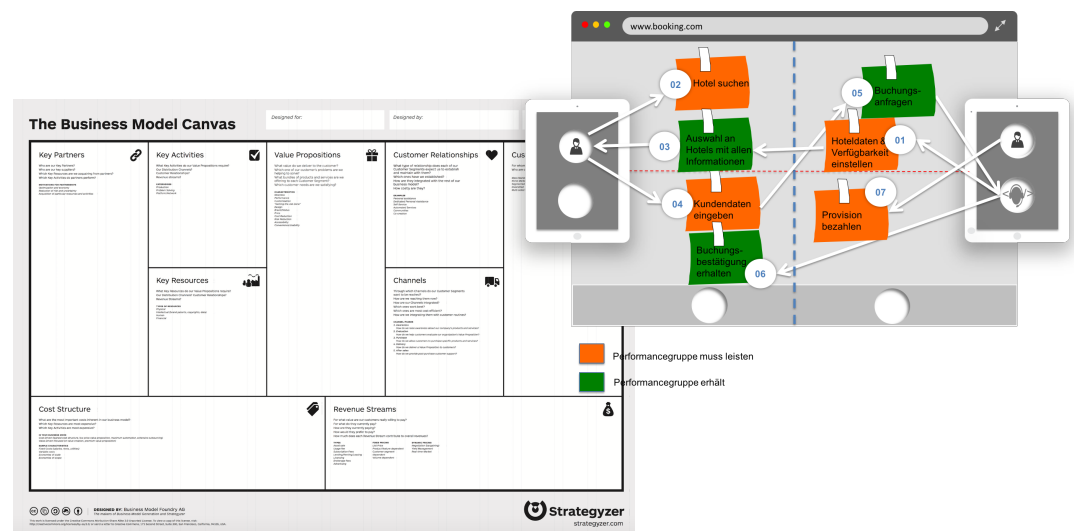


Exhibit 1: The Business Model Canvas (Osterwalder/Pigneur 2010) and a digital use case (booking transactions) in Digital Business Modelling (Hoffmeister 2015)



*Digital capabilities will
determine which companies
create or lose value!*

The joint reflection of both, the building blocks and the digital use cases, will help us to find the appropriate new digital business model. It also shows “how much” digitization is really beneficial. E.g. the use of principals, agents and software agents for highly automated tasks or the use of ‘digital Lego-blocks’ to automatically connect with suppliers and business partners.

Using the presented approach, companies will be able to create an appropriate orientation guide based on their current assets and capabilities, paired with the uncovered potentials and the options of the digital world. Finally, the digital transformation road map describes the successful journey.

About the author

As a business consultant and business coach Andreas Duffner serves to global customers since more than 25 years. His core expertise is customer relationship management, business transformation, management of multi-cultural teams, digitization as well as leadership and team coaching. He was founder of 2 start-up companies.

Andreas Duffner was instrumental for building up of SAP’s global Business Transformation Services practices; in the course of this he was building up the practices in Asia, Pacific and Japan (SAP Asia, Singapore. 2008 - 2010).

The journey to the ‘Digital Pavilion’

Visit d-transform’s website www.d-transform.com and watch the video about the journey to the digital pavilion:



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