Case Studies on

Business Models – Vol. II

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OVERVIEW

Business model is a buzzword that everybody used during the dotcom boom. To differentiate the winners from the losers, it is important to describe and evaluate companies' business models.[1]

But, some of the most basic and fundamental questions facing global business leaders are: Is the current business model, which arose more than a century ago and has evolved ever since, still sufficient? Is the model capable of successfully handling the complexity and technology of today's global era? And is it still up to the task of delivering solid growth to the bottom line?

Certainly the model has not remained static since it was first employed. Technology has enabled it to become flatter, larger and more far-flung. In its infancy, the model was capable of structuring and organizing only one line of business. With today's augmentations, the same model works with higher levels of complexity, with multi-line businesses competing in a variety of sectors.

Through a research, Booz-Allen & Hamilton opined that the current business model has outlived it usefulness for large, global corporations. In fact, in some instances, the model is actually hindering a company's ability to compete. The key reasons include the significant increase in complexity in managing business and the increasing premium put on innovation. The complexity is due to significant changes in the business environment. The pace of business is accelerating beyond the ability of most corporations to adjust. And value-adding opportunities must be seen more frequently than previously. It should be evident to anyone in business that companies today operate in an environment of enormous and continuous change. Changes on a massive scale are now everyday parts of the landscape. And it is unlikely that we will ever return to simpler times.

So, corporations must reinvent their business models if they want to flourish in the more complex environment of the future. The new business model must enable the firm to generate growth opportunities, respond flexibly and capture the opportunities quickly and profitably. The model must be effective in managing knowledge and people processes. It will be characterized by the interdependence, rather than independence, of its parts, while insuring that each part of the firm is a contributor to value. This requires new roles for each of the firm's parts so that they can work together in new ways to help the company's resource base grow.

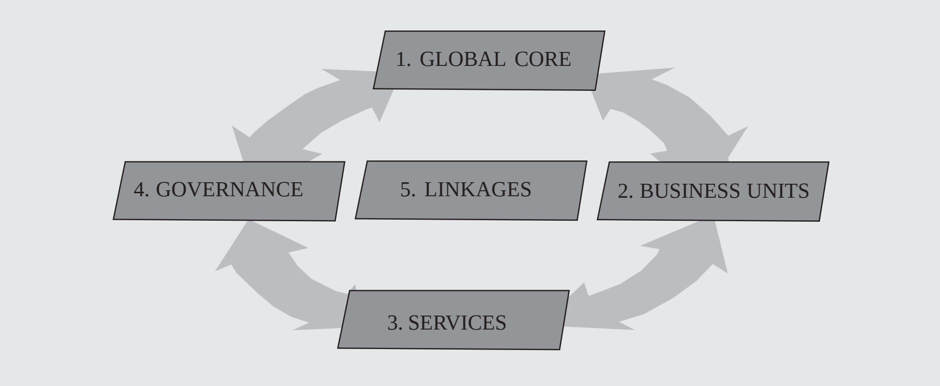
A firm's business model comprises five elements (Exhibit I). It establishes the logic for building or acquiring new businesses. And it helps set the standards for performance expectations from each of the elements.

At the heart of the model is the global core, which is a radical transformation of the old corporate center. It is global in the sense that it is responsible for key missions across the

[1] McClure Ben, "Getting To Know Business Models", http://www.investopedia.com/articles/fundamental/04/033104.asp

Exhibit I

The New Business Model



Source: Viscio Albert J. and Pasternack Bruce A., "Toward a New Business Model", http://www.strategy-business.com/research/96201/page5.html, August 24th 2000

corporation. It is a core because it is meant to add value to all of the other elements of the model. The global core has five key missions: identity, strategic leadership, capabilities, capital and control. Identity is based on a shared vision and value system. It adds value to the corporation across a wide set of constituents, including governments, public interest groups and customers. Strategic leadership provides the overall context for growth, helps develop the overall business portfolio, assists in fostering key alliances and creates the overall mandate for growth. Capabilities are the fundamental building blocks of competitive advantage. The control mission is to define targets, monitor performance, meet legal and fiduciary requirements and comply with regulations. The capital mission is to insure access to lowest-cost funding to support growth and to manage the financial risks of the corporation.

Business units must be worth more as part of the firm than they would outside of it, thus creating system value. This enhanced value may come from one or more sources. The business may benefit more from a number of sources, including the core. It may also benefit from interactions with other business units in such activities as best-practice exchanges, knowledge sharing and capabilities transfers. To capture some of the potential value, business units will have to be managed differently.

Service delivery can be from several sources, but central services out of the corporate center should not be one of them. Activities that exhibit economies of scale and are either too critical to outsource or for which the outsourcing market is not efficient can be put into a shared-service division. Another important dimension to shared-service delivery is to support subscale business activities in remote locations. Sharing can be among business units or initiated by corporate to provide the support needed for growth.

Governance is taking on a larger role in corporations. Four forces are driving this change. A push for performance is creating more active boards with greater CEO accountability. Expansion of capital markets and the need to access new capital are especially important as family-owned businesses look to obtain financing or companies seek out capital in emerging markets such as China. Regulatory actions are forcing boards to become more pro-active to deal with everything from privatization issues to taxes on excessive CEO compensation. And alliances, especially international and cross-cultural ones, are requiring adjustments in how ventures are governed.

Linkages tie the corporation together and cover issues such as organization, management processes and communications. Some linkages are corporate-wide, while others cover only certain elements of the business. Linkages are needed between and among the five elements of the business model and within each. Many of the linkages are related to the firm's knowledge structure and people processes. Some companies, such as 3M and Hewlett-Packard, have formed cross-business teams to create new product opportunities that combine technologies. Others, such as PepsiCo, use regular meetings of top managers to discuss new groundbreaking ideas. The range of linkage mechanisms is wide, but the overall objective is often to build beyond individual business lines.

In summary, to thrive amid the complexities of the new business environment, a new form of corporation is needed. That corporation must have a much stronger focus on the basics of what ultimately creates value—knowledge and people. It must create a leadership model that engages the full resources of the firm. And it must evolve toward a new business model that fosters the creation of value and insures that each piece of the business is a contributor to system-wide value. The primary challenge for top management is to drive these changes and to lead their companies into the new business model. Success in this role will determine which companies wind up being the drivers of their industries.

This case book highlights how few companies are going for a new business model to survive in the respective industry. It covers companies across the industries.