

# Business model innovation as a means to realize growth

Business model innovation will be the next big differentiator for companies aspiring innovation leadership.

*Definition of a business model: The rationale of how an organization creates, delivers, and captures value.<sup>1</sup>*

Innovation leaders are breaking away from the pack by allocating increasingly more resources to business model innovation.<sup>2</sup> And they are right. Research has illustrated that more value is to be expected from business model innovation, than from any other form of innovation. Business model innovation has a higher impact on business results. Pursuing new markets is much more likely to be successful when driven by means of new models for value creation.

More and more game-changing models see the daylight, however, the balance between value creation and value capturing remains to be a challenge. Key for success is the ability to adequately apply changes to the operating model, in order to deliver the value as designed by new business models.

## Drivers for business model innovation

Organizations throughout industries experience similar challenges to maintain turnover and profit levels.

These are:

- balance between short-term cash focus and long-term value focus;
- globalization and complexity of Value Chains;
- ever more ambitious strategic business objectives;
- new forms of competition;
- insufficient awareness and understanding to transform business models effectively.

## Approaches to creating new business models

Companies can approach business model innovation from various angles. First, there is the angle of the individual innovation or new business development project. Second, there is the more tactical angle on

a portfolio of innovation initiatives. Third, there is the strategic angle of considering the implications their business strategy brings to their business models.

## Accelerating individual innovation initiatives

Most innovation projects within organizations start either from insights that customer demand is changing or that a company can deliver other products and/or services out of the available capabilities. Driving business model innovation for individual innovation projects entails (re-)considering the earnings and business model for the project, ensuring optimal fit between the external (outside-in) requirements and the internal (inside-out) capabilities.



To increase the success of new business models companies should not try to pursue a 'one-size-fits-all' model, but carefully specify business models to match with market requirements and capabilities. Prior to coming to a preferred business model various alternatives need to be considered and weighted against each other. The alternatives as they are generated vary in terms of Value Chain involvement, Value Creation strengths, and Value Capturing opportunities.

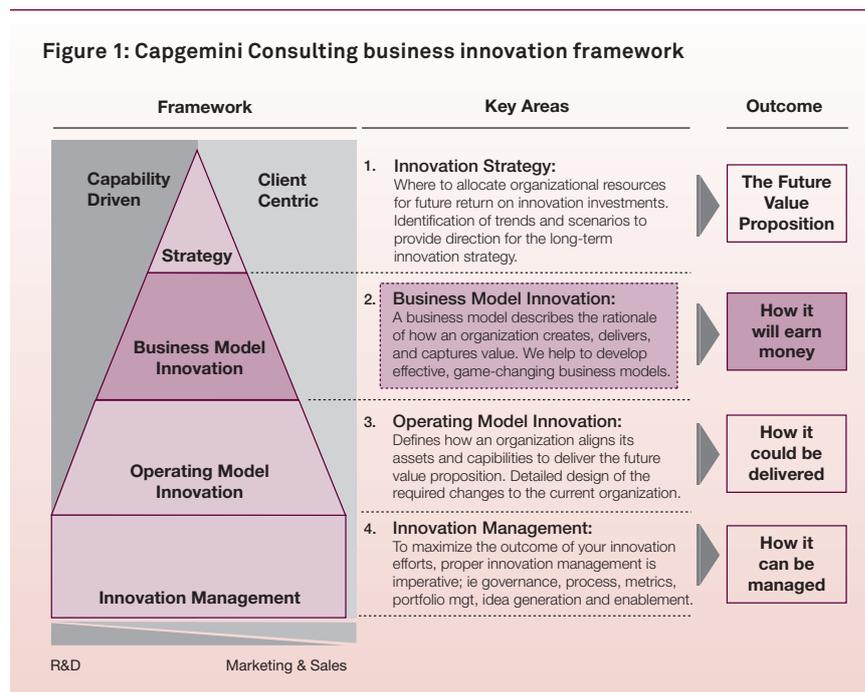
### Portfolio of business models

Business models occur at the level of product-market combinations. Since companies most often have an elaborate portfolio of different product-market combinations the same should apply to business models. However, most companies struggle with this. Heavily relying on the current skill set together with processes of bringing innovations to market, the opportunity to create new and game-changing business models is often overlooked. Companies with strong brands are able, more than others, to maintain and manage a portfolio of business models that sets a clear message to various segments of customers. The portfolio of business models drives decision making along insights in attractiveness of business models, ability to execute, and of course, business impact.

### Strategy implications

The success of a business strategy largely depends on a profound understanding of the business environment and the match with organizational capabilities. Essential to any strategy is not only the strategy formulation, but also the way a strategy is implemented.

Most organizations draw a roadmap for strategy implementation that neglects the impact on business models throughout the organization. There are basically two ways in which the business model strengthens strategy:



- applying the business model as a sanity check to ensure proper strategy implementation;
- using the business model to translate strategy and determining its implications enhances the performance of the strategy implementation.

### Strategy sanity check

Considering the business model when creating a new strategy enables companies to prepare for implementation. By assessing the degree of change that is required for successful strategy implementation, companies gain insights into the feasibility of the strategy and its objectives. The larger the degree of change, the more challenging achieving objectives is.

These insights serve as a key input for iteration towards finalization of the strategy formulation and therefore as an input to optimizing fit between strategies and organizations. Conducting a sanity check based on the business model enables organizations to formulate strategies that are fit for purpose, realistic and implementable.

### Translating strategy

Success of any strategy is determined by its implementation. Traditionally the impact of the business model is not considered when drafting an implementation roadmap. By including the impact a strategy will have on the business model an organization is much more able to focus its attentions to where it is really needed. Considering the implications on business models results in identification and prioritization of hotspots that are key to the strategy's success. Translating strategy to the impact on business models identifies what changes are required to operating models to drive performance and success. This enables organizations to implement new strategies faster and more smoothly.

### Implementing new business models

By assessing the differences between future business models and the current ones any organization can be more prepared for changes up ahead. Key to successful business model implementation is the adaptation of an organization's operating model. By adapting the operating model to fit with new business models

organizations prove to be more able to change their operations and way of working effectively. Thus increasing agility and flexibility to respond to changes.

### Conclusion

Ever faster changing environments together with demanding customers increase the necessity to adapt business models to capture future growth. Depending on the kind of challenge up ahead companies can focus their business model changes on accelerating innovation initiatives, driving a portfolio of innovation projects or strengthen their strategy by connecting to business models. Positive effects of adapting business models are:

- improved ability to benefit from the complexity of Value Chains;
- more explicit decision making regarding short-term cash focus and long-term value focus;
- raised understanding and ability to transform businesses effectively.

Regardless the circumstances business model innovation enables organizations to improve the way they create value and increase the value they capture.

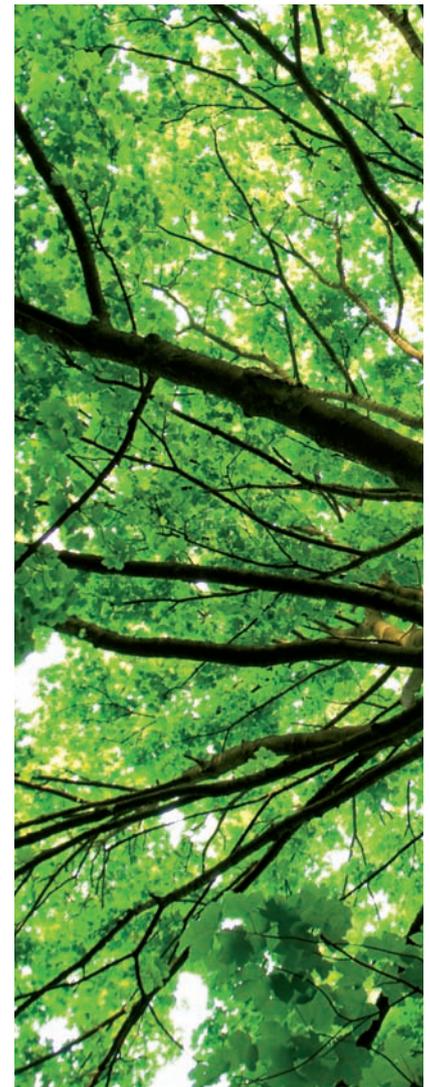
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Capgemini Consulting has supported numerous national and international companies and institutions in the analysis, design and implementation of business models. Drawing on our global network of innovation experts, we have access to established tools as well as best practices. Our competencies in change management and proven implementation skills augment our business model and industry expertise: we do not only develop the right solution - we also implement it effectively and sustainably in the organization.

With our proven approach comprising a combination of formal/quantitative and content/qualitative analyses as well as established tools, we can quickly establish transparency on business drivers and identify

business model potential within three-four weeks. Based on our experiences, we will collaborate with you in developing structural alternatives, and establish the framework for an objective assessment and selection of the best possible alternative business model.

For more information please contact Bas van Oosterhout and Koen Klokgieters.



<sup>1</sup> Business Model Generation, Osterwalder & Pigneur (2009)

<sup>2</sup> Global Innovation Survey, 2010, Capgemini Consulting



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