

Building the basis for sustained value creation in the 21st century

European Business Model Innovation Forum

**Mission
Target Group
Benefits
Programme**

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Summary

Why business model innovation?

Business model innovation is regarded already today as the major driver of value creation and growth. In a few years, it will be the main source of competitive advantage. The opening of markets and continuously accelerating global competition are leading to a situation in which competitive advantage based purely on product advantage will at best be only short-term. The way products are created, delivered, and maintained will make the greatest difference in the future. *How* companies do business will often be more important than *what* they do. Consequently, companies will have to continuously review and reconfigure their business models.

In the process of business model innovation, the challenge for companies is to balance stability and reliability with innovation and change. Without a systemic approach that ensures that all involved internal and external parties work ‘in concert’ to develop and implement one consistent business model that can leverage existing assets and that is aligned with the markets that won’t be possible. Business model innovation needs to be turned into a systematic process that enables organisations to execute it with operational excellence and to repeat it successfully again and again.

The mission of the European Business Model Innovation Forum

Organisations that start to think about to work on business model innovation and to institutionalize the process soon discover that they have to find new answers for a whole range of questions and have to struggle with many challenges. The intention of the European Business Model Innovation Forum is to leverage the collective intelligence and experience of a group of professionals – cross-company, cross-industry, and cross-country – to accelerate the process of developing a ‘best practice business model innovation process guideline’ and to facilitate learning and new insights that help the participating companies to successfully implement business model innovation in their organisations. Specifically this should enable them to avoid the cost of failure and implement change without jeopardizing the existing business, to create real differentiation and to beat competitors, to overcome resistance to change and increase speed, to boost productivity and reduce down time, and to measure the impact of change.

Proposed work program 2007/2008

A first meeting is planned in Q2 2007 to introduce the participants to each other and to have an exchange of current business challenges and actual status in business model innovation. The goal is to publish in Q1 2008 a first version of ‘business model innovation guidelines’. In a second step, the forum may evolve into industry-specific subgroups.

About the initiators

Juergen H. Daum is chief solution architect in the Business Solution Architects Group at SAP in Walldorf, Germany. In addition, he is president and founder of the International Institute of Enterprise - Heidelberg, a think tank and training organisation. In this role he develops and promotes innovative concepts for enterprise management and entrepreneurship for organisations in Europe.

Karl F. Gruber is director of operational risk management at the corporate center of Deutsche Bank AG, Frankfurt. In his previous positions at Deutsche Bank he was responsible for international key projects in organisational development, compliance, controlling, capital and risk management, as well as marketing and communications (such as, restructuring, post-merger integration, cost containment, risk reduction, internal branding, growth initiatives). He has been advising senior management at group, divisional, and regional level for over 20 years.

Business model innovation – the basis for sustained value creation in the 21st century

The opening of markets and continuously accelerating global competition result in increasingly more choices for buyers. As a consequence, it is getting harder for consumers and companies alike to distinguish between the many products and services¹ offered on the market based on functions alone. For sellers, this means that they cannot successfully compete purely on the basis of product advantage, which at best is only short-term. The way products are created, delivered, and maintained will make the greatest difference in the future. *How* companies do business will often be more important than *what* they do. Consequently, companies will have to continuously review and reconfigure their business models – changing many aspects of how companies have been used to doing business, and employees and manager have been used to doing their jobs.

Business model innovation is regarded already today as the major driver of value creation and growth². This turns the traditional concept of an enterprise upside-down: It is not the products and existing customers per se that are the source of competitive advantage and value creation in the future, but instead the capabilities and competencies that allow an enterprise to adapt to changing market conditions and evolving new technologies, leverage new upcoming opportunities, and develop its value creation potential (in its customer base, its brands, its business partner relations, R&D capabilities, production know-how and so on – i.e. in its business processes), bringing it to the next level.

Many of today's critical success factors for organisations will remain in place, but new factors will emerge, and even the familiar ones will be influenced by different perspectives. To begin with, companies have to be much more familiar with their customers and stakeholders (as well as their potential customers and stakeholders) than they used to be. They will also have to involve them more closely in many parts of the business. And they have to recognize and focus on what they can do best, that is, on their (sometimes hidden and unknown) core competencies².

In the process of business model innovation, the challenge for companies is to preserve existing customer and stakeholder relations on one side, while also constantly improving their value offer, increasing differentiation against the competition, attracting new customers and stakeholders, and therefore successfully innovating with their entire value creation system and implementing the necessary changes in time. It requires them to maintain certain assets, while innovating and implementing changes in other areas. In other words, companies have to balance stability and reliability with innovation and change.

How to make it happen? The case for a 'systemic business model design' and a 'systematic business model innovation process'

Organisations that start to think about working on business model innovation and to institutionalize the process soon discover that they have to find new answers for a whole range of questions, such as:

- How do we create value? How do we have to create value in the future? What is and should be our value-added offer to our customers and stakeholders? (And in this context: Who are our major current (and future) customers? Who are our major current (and future) stakeholders?)

¹ The term products is used in this document to describe both products *and* services.

² Findings from an extensive research programme about the success factors of organisations in 2010, conducted by the Economist Intelligence Unit and sponsored by SAP. It involved a survey of a total of 4018 executives from around the world (see: The Economist Intelligence Unit, Business 2010 – Embracing the challenge of change, London, 2005).

- How do we differentiate from our current and future competitors? (And in this context: who are our major current competitors? Who will be our future competitors?)
- How does our current profit model work and how might it work in the future?
- Where should we position ourselves in our industry value chain?
- What are the products that will create most customer value-added / differentiation in the future and have the highest profit potential? How will we develop, produce, market, sell and distribute these products?
- What are our core competencies that are creating competitive advantage and profit today? What are our core competencies that will create competitive advantage and profit tomorrow? How can we leverage existing competencies to create new solutions?
- What are our major value creation processes/activities (today and in the future) that should never be outsourced?
- Who are our most critical current and future business partners?
- What are the most critical skills/human capital we need for our current business? What are the most critical skills/human capital we will need in the future?
- How do we measure and manage performance (today and in the future)?
- What are the most critical information assets we need for our current business? What are the most critical information assets we will need in the future, and what does this mean for our information system infrastructure?
- What are the consequences from a leadership and corporate culture perspective?

All these questions have one thing in common: They cannot be answered by one function alone. To create the necessary insights to develop the ideas for new business models that can change the rules, companies have to initiate new ways of collaboration between internal functions and departments, and also between the enterprise and its business partners. For instance, to find interesting new answers for the first set of questions, the usual starting point, marketing/sales, R&D, customer service, distribution partners, and some lead-customers have to collaborate. A collaborative approach in the design and in the implementation phase is even more important. If single functional solutions and only one or a few functions dominate the process, the enterprise will not be able to successfully transform its business model. Another important aspect in this context is that such initiatives are often too internally focused, resulting in a high probability that the enterprise will fail to really align its business model with changing market conditions and create external differentiation.

The variety of functions and areas affected by the above questions also indicate that the process of business model innovation and transformation can be complex. Management also has to focus, therefore, on constantly improving the operational efficiency of that process, reducing the complexity of the business model and of the business model innovation process, and making sure that the process can be repeated without reinventing the wheel when markets are changing and the enterprise has to transform its business model once again.

What is required is:

1. **A systemic approach** that helps the organisation to work as one system (on one system):
 - a. to ensure that all involved parties work ‘in concert’ to develop and implement one consistent business model that is aligned with the markets and really makes a difference
 - b. to ensure that strategic white spots can be detected where no-one has yet recognized that change may be necessary and a project/initiative needs to be set up to maintain the enterprise’s competitive edge

→ The business model has to be designed from a system perspective, i.e. the focus has to be on the whole system (‘systemic business model design’ is required - see figure 1)

2. A systematic approach that helps the organisation:

- c. to pursue the process of business model innovation with operational excellence and be able to repeat it successfully again and again
- d. to continuously optimize value creation and keep the value creation model simple and efficient

→ The business model innovation has to be managed as a process (systematic business model innovation is required - see figure 1)

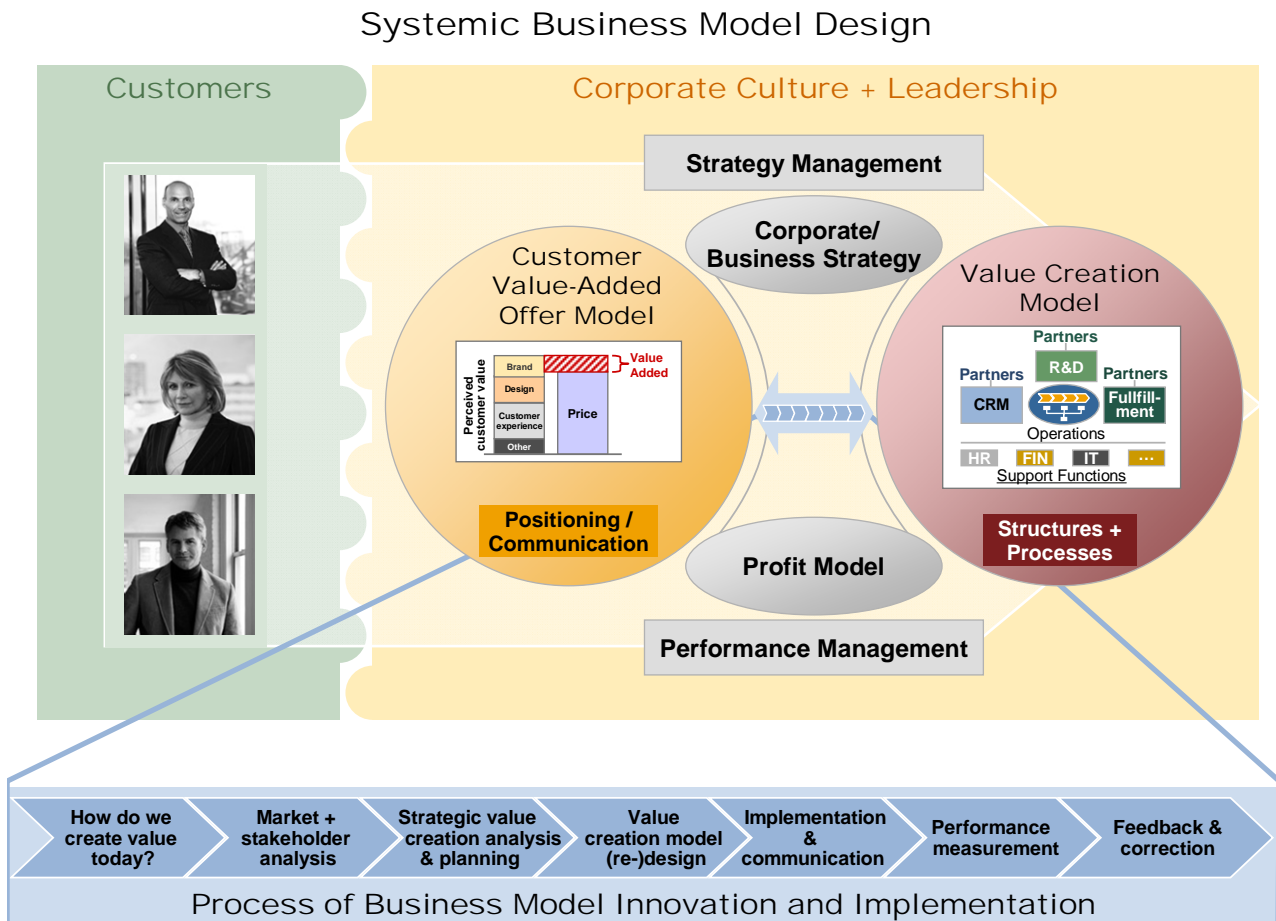


Figure 1: Systemic business model design and the process of systematic business model innovation and implementation

Mission of the European Business Model Innovation Forum

In most organisations, there is a large amount of untapped potential to improve competitive advantage, strengthen the organization’s ability to make a difference on the market, enable sustained growth, and improve profitability through constant business model innovation.

Most organizations are familiar with managing major change programs. However, these usually involve only one change at a time. Business model innovation requires organizations to *constantly* change *in many areas simultaneously* and *in concert*.

To do this successfully, organisations must apply a systemic approach to developing the new business models and a systematic process for implementing the new business model. To do this, they have to create a whole set of new capabilities. This represents a major challenge.

The mission of the proposed Business Model Innovation Forum is:

- To bring together individuals from European organisations (cross-industry, cross-function) to exchange ideas and experiences of business model innovation and discuss the foundations, structures, processes, and methods for successful business model innovation
- To develop (first a generic, later, however, probably industry-specific) guideline(s) for business model innovation that describes the best practices
- To help participants to promote the identified/developed best practices in their organisations and in their wider business communities
- To exchange lessons learnt and experiences about the implementation of concepts for business model innovation

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Target group / profile of possible participants

We are looking for participants from (organisation):

- Companies that want to reposition themselves in the market as a result of increased (price) competition
- Companies whose industry is currently undergoing a major transformation (such as the financial service industry)
- Service companies that want to move to the next level in competitiveness by introducing new service products and ways to work with customers and partners
- Manufacturing companies that want to provide complete solutions and are increasingly repositioning themselves as 'service companies'
- We are looking for a mix of large and midsize companies

We are looking for participants from (function):

- Strategy/enterprise development
- Innovation management/business development
- Marketing and sales
- R&D/product development
- Corporate communication
- Strategic HR: Skill development/talent management
- Controlling/finance
- Change management
- IT

Benefits of participating

Gain insights into the commonalities of successful business model innovation across industries and national borders that encourage fresh thinking to:

- Avoid the cost of failure and implement change without jeopardizing your business
- Increase differentiation externally and reduce complexity internally
- Create real differentiation and to beat competitors
- Overcome resistance to change and increase speed
- Boost productivity and reduce down time
- Measure the impact of change

Proposed work programme 2007/2008

- First meeting in Q2 2007 – agenda topics:
 - Introduction of participants and their motivations to participate
 - Exchange of current business challenges and actual status in business model innovation (based on cases presented by some of the participants)
 - Discussion about expectations and objectives for the Business Model Innovation Forum
 - Proposals for additional participants to be invited
- Fine-tuning of concept for the Business Model Innovation Forum after the first meeting (based on feedback and discussion) and invitation to further participants for the second Business Model Innovation Forum
- Second meeting in Q3 2007: Definition of working plan for 2007/2008
- Start of 2008: Publication of first version of ‘business model innovation guidelines’

About the initiators:



Juergen H. Daum is chief solution architect in the Business Solution Architects Group at SAP in Walldorf, Germany. He acts for the CFOs and finance professionals at European companies as a generator of ideas and stimuli for redesigning and transforming the finance organisation and developing the CFO and controller function in organisations.

Before taking on his current position at SAP, he was director of program management for SAP's finance and accounting solutions in SAP's corporate product development group, and was in charge of product management, product marketing, and business development. He also held positions at SAP as a project manager in corporate product development, and, before, in sales in Germany and regional sales support in Europe. Before joining SAP, he was CFO/COO and member of the management team in several mid-sized companies where he was involved in strategic business and organisational transformation projects.

In his role as president and founder of the International Institute of Enterprise - Heidelberg (IIOE-Heidelberg, a think tank and training / advisory organisation: see <http://www.iioe.eu>), he develops and promotes innovative concepts for enterprise management and entrepreneurship for organisations in Europe. He also provides impulses and practical concepts for management innovation and for strengthening the entrepreneurial and innovation power in organisations.

Juergen H. Daum also regularly publishes articles in professional journals, is the author of "Intangible Assets and Value Creation (2003)" and "Beyond Budgeting (2005)," and is a frequent lecturer at universities and business schools, as well as a management trainer.

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Karl F. Gruber is director of operational risk management at the corporate center of Deutsche Bank AG, Frankfurt.

After training as a wholesale trader, Karl F. Gruber (born in 1948) studied business administration and economics at the Niederrhein University of Applied Science in Moenchengladbach/Krefeld and the University of Duisburg/Essen.

From 1977, he held various marketing management positions at Mannesmann AG in Dusseldorf, London, and Sao Paulo. He joined the corporate center of Deutsche Bank AG, Frankfurt in 1987. Responsible for international key projects in organisational development, compliance, controlling, capital and risk management, as well as marketing and communications (for example, restructuring, post-merger integration, cost containment, risk reduction, internal branding, growth initiatives), he has been advising senior management at group, divisional, and regional level for over 20 years. His particular advisory focus is on strategic change management processes with the aim of building/creating interpersonal relationships that add value to the company.

Karl F. Gruber is also co-author of the book "Successfully Implementing Corporate Strategies through Commitment Management" (2000) and a frequent lecturer at universities and business schools.

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