

Paths to success

Three ways to innovate your business model

Innovation in business models is a success differentiator for CEOs, as we learned from the IBM 2006 Global CEO Study. But what is it and what can we learn from successful business model innovators? Based on our experience, a literature review and an analysis of 35 best practice cases, we identified three main types of business model innovations: those in industry models, revenue models and enterprise models. We then compared these across the 35 best practice cases and found that each type, used alone or in combination and with the right strategy and execution, can generate success. Among the three types, enterprise model innovation emphasizing external collaboration is the most common.

As CEOs navigate today's rapidly changing global business environment, their ability to introduce business model innovations is proving to be a critical success factor. We learned from the IBM 2006 Global CEO Study that business model innovation had a much stronger correlation with operating margin growth than other types of innovation.¹ But what exactly is it? And what type yields the best results?

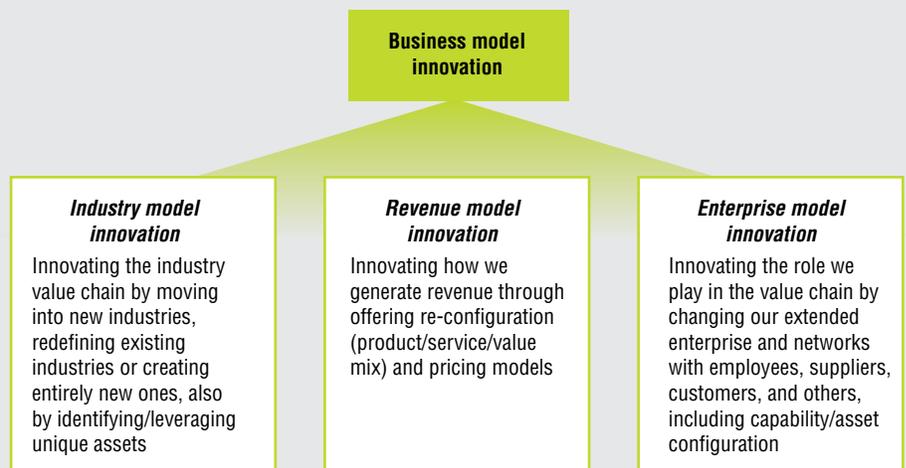
Based on our experience and research, we identified three main types of business model innovation, which can be used alone or in combination: innovations in industry models, in revenue models and in enterprise models (see Figure). We found that all three types (or combinations)

of business model innovation can lead to successful financial results. We found no significant variation in financial

performance across the different types of business model innovation. The good news: With a sound strategy and strong execution, any of the paths can lead to success.

While many paths may lead to success, innovations in enterprise structure that focus on external collaboration were the most common in our sample, with 15 of the 35 cases focused on this. Among the older companies in our sample, network plays were particularly common, enabling them to change course via new partnerships or acquisitions while leveraging their brand, scale, channels or other long-standing strengths.

IBM framework for business model innovation.



Source: IBM Institute for Business Value and IBM Global Business Services.



Overall, the best business model innovation strategies provide a strong fit between the competitive landscape for a particular industry and the organization's strengths, shortcomings and characteristics such as age and size.

Conclusion

Anticipating massive change across diverse industries, top-performing CEOs are focusing on business model innovation as a path to competitive strength. To accomplish this, business leaders can use three main types of business model

innovation: innovation in industry models, revenue models or enterprise models. These approaches can be used alone or in combination. Because of its prevalence as a successful innovation strategy, enterprise model innovation, emphasizing collaboration and partnerships, should be a key consideration for executives as they respond to change.

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Reference

1 "Expanding the Innovation Horizon: The Global CEO Study 2006." IBM Global Business Services. March 2006. <http://www.ibm.com/bcs/ceostudy>; In this study, IBM interviewed 765 CEOs, business executives and public sector leaders worldwide to understand the innovation challenges that companies are facing globally.

How can IBM help?

Key solutions relevant to the issues and opportunities raised in this study include:

- **Strategy and Change:** Fuses business strategy with technology insight to help organizations develop, align and implement their business vision to drive innovation and growth
- **Business Strategy:** Translates innovative and core competencies into real business value by helping organizations formulate strategies, manage change and realize benefits
- **Business Model Innovation:** Helps clients drive business model innovation through revenue models, industry models and enterprise models such as the Globally Integrated Enterprise
- **Component Business Modeling:** Helping companies select where to focus their activities

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