



## IBM Institute for Business Value

# Seizing the advantage

## *When and how to innovate your business model*

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### Overview

In today's increasingly complex and fast-changing environment, business model innovation is critical to success. Yet few understand when to make a change, or – more importantly – how to execute. Based on a follow-up to our IBM Global CEO Study 2008 and an analysis of 28 successful business model innovators, we gained insight into when and how to innovate the business model.<sup>1,2</sup> Organizations can determine the right timing based on the economic environment, their own state of industry transformation and a set of internal factors that includes the degree of product and service innovation, and available financial resources. To execute, the Three A's represent required capabilities: organizations need to be *aligned* with customer value, *analytical* to gain insight from differentiated intelligence, and enabled by an *adaptable* operating model.

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From the IBM Global CEO Study 2008, we learned that CEOs expected more turbulent change than ever before. But few probably anticipated the severity and depth of the economic downturn that started in the second half of 2008 and created a new economic environment. The CEO Study shows that financial outperformers are able to leverage change to their advantage. Indeed, they proactively seek to disrupt competitors, redefine industries and gain share.

So how do companies take advantage of change? CEOs told us that innovating their business model is one of the most prominent strategies. With unprecedented change upon us and business model innovation becoming pervasive, two questions can help companies develop their strategy and transformation approach for the new economic environment:

- Under what conditions should companies innovate their business model?
- What capabilities and characteristics support the design and execution of successful business model innovation?

### When to innovate your business model

Most people think a recession is the time to hunker down and ride out the storm. But they may be wrong. Periods of economic turmoil and transition create significant opportunities to gain advantage.



We see successful companies taking advantage from emerging opportunities in the new economic environment by innovating their business model in three ways:

- Many organizations revisit their *enterprise model* during the economic downturn to reduce cost through new collaboration and partnership models.
- Industry leaders with strong financial resources take advantage of the unprecedented *industry transformation* by introducing alternative industry models and disrupting their competitors.
- Most companies rethink their *revenue model and value propositions* to respond to a different set of customer behaviors and market requirements.

Successful timing of business model innovation depends on the *economic environment, the specific market and industry conditions, and a set of internal factors impacting the organization.*

### The Three A's: Characteristics for success

If the timing is right, how does an organization go about innovating its business model? Established companies have to manage legacy transition issues, which often allow start-ups and new entrants to capture significant value in industries in turmoil. However, our research has shown that new and innovative business models can – and do – succeed independent of a company’s age, industry or geography.

We reviewed 28 cases of recognized innovators, as well as select organizations that either tried to innovate their business models and failed, or simply missed the window of opportunity.<sup>3</sup> Based on this analysis, we identified a set of characteristics that strong business model innovators demonstrate consistently (see Figure 1).

	Industry model	Revenue model	Enterprise model
<b>Aligned</b>	<b>Customer value</b> <ul style="list-style-type: none"> <li>• Internal alignment between industry, revenue (including value proposition) and enterprise model</li> <li>• External alignment or “open” business models</li> <li>• Ability to leverage existing assets and capabilities</li> </ul>		
<b>Analytical</b>	<b>Business intelligence and insight</b> <ul style="list-style-type: none"> <li>• Strategic foresight</li> <li>• Financial business modeling</li> <li>• Effectiveness measurements</li> </ul>		
<b>Adaptable</b>	<b>Leadership and change</b> <ul style="list-style-type: none"> <li>• Visionary/innovation leadership</li> <li>• Effective decisions to support “breakthrough” innovation</li> <li>• Dynamic course correction</li> </ul>		<b>Operating model</b> <ul style="list-style-type: none"> <li>• Lean and transparent processes</li> <li>• Flexible and scalable technology</li> <li>• Globally optimized operations</li> <li>• Asset and cost flexibility</li> </ul>

Source: IBM Institute for Business Value.

Figure 1: The “Three A’s” model for business model innovation.

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These characteristics – the “Three As” – are critical to the successful design and execution of business model innovation:

- **Aligned** – Leverage core capabilities and enforce consistency across all dimensions of the business model, both internally and externally, that build customer value
- **Analytical** – Use information strategically to create foresight, and prioritize actions while measuring and tracking for rapid course correction
- **Adaptable** – Link innovative leadership with the ability to effect change and create operating model flexibility.

We found that each of the Three As is important for building successful and sustainable business model innovation. Strong business model innovators often combine all three characteristics and realize the associated value.

## Conclusion

The new economic environment is pushing many companies to revisit their business model. Each organization needs to consider the potential benefits and hurdles carefully.

Every company will not elect to innovate its business model at the present time. However, building the capabilities now to support it will help position organizations to seize competitive advantage and optimal performance. In doing so, they put themselves in the running to become successful business model innovators and industry leaders.

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## How can IBM help?

IBM Strategy & Change fuses business strategy with technology insight to help organizations develop, align and implement their business strategy and vision to drive innovation and growth.

- **Business Model Innovation:** Helps clients drive business model innovation through revenue models, industry models and enterprise models such as the Globally Integrated Enterprise
- **Target Operating Model:** Helps clients execute new operational models based on changes to the business strategy and business model
- **Component Business Modeling:** Helps companies select where to focus their activities

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#### References

- 1 IBM Corporation. “The Enterprise of the Future: IBM Global CEO Study.” May 2008. <http://www-935.ibm.com/services/us/gbs/bus/html/gbs-ceo-study-implications.html>. In a follow-up to the IBM Global CEO Study, a joint team of Carnegie Mellon Tepper School of Business and IBM analyzed the 2007 and 2008 financial performance (revenue growth and operating margin expansion) of 194 companies participating in the original study, for which a complete set of data was available.
- 2 The 28 best practice cases were selected based on two key sources. We revisited the Business Week listing of the most innovative companies in the context of their performance in the 2008 economic turmoil. “The World’s Most Innovative Companies.” *BusinessWeek*. April 24, 2006. [http://www.businessweek.com/magazine/content/06\\_17/b3981401.htm](http://www.businessweek.com/magazine/content/06_17/b3981401.htm). We then added strong business model innovators that demonstrated top performers during the economic downturn of 2008-2009. See Berman, Saul, Steven Davidson, Sara Longworth and Amy Blitz. “Succeeding in the new economic environment: Focus on value, opportunity and speed.” IBM Corporation. 2009.
- 3 For selection of business model innovators, see footnote 2. For a set of “counter-pairs,” we analyzed companies that pursued business model innovation with limited success and compared them to strong innovators.