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Accelerating Digital Reinvention with component business modeling

IBM Institute for Business Value

On the horns of a dilemma

Traditional business models are in a state of flux. In the most recent IBM Institute for Business Value CEO study, 60 percent of CEOs surveyed said that more competition is coming from outside their industry, a 50 percent increase since 2013.¹ As a result, many business leaders today find themselves on what feels like the horns of a dilemma. Do they digitally reinvent their businesses, or try to hang on as discrete parts of their organizations are ravaged by more nimble, technologically superior upstarts from outside their core industry?

Digital Reinvention for long-term gain

Digital Reinvention™ is about reimagining all key elements of your business strategy, operations and technology, with a central focus on creating improved customer experiences. It calls for embracing technological change and disruption, and viewing an enterprise as a collaborative unit that is part of a wide ecosystem.

Moreover, digitally reinvented businesses commit to learning by doing and continuously calibrating and improving. They see innovation as a cross-company and cross-value chain opportunity, engaging all employees as well as clients, business partners and even regulators (when appropriate).² And an ever-increasing proportion of touchpoints will be digital. Eighty-two percent of CEOs say there will be more digital interaction with customers and partners over the next three years, up from only 60 percent in 2013.³

Here is the dilemma: On one hand, postponing Digital Reinvention may provide short-term comfort, even while business slowly erodes. On

the other hand, Digital Reinvention can be a slow, painstaking process that may cause immediate internal disruption both to a company's processes and to its culture. However, the long-term benefits of Digital Reinvention – with the corresponding benefits of improved customer experiences – make it a worthwhile endeavor.

It's like the story of the student who is running to school pushing a bicycle. A bystander asks the student, "Why are you running?" "I'm late," replies the student. "Then get on your bike and ride it; that will be faster," the bystander suggests. Zipping past, the student shouts, "I don't have time."

The potential disruption of Digital Reinvention may be giving you pause, but there is a better course of action. Component business modeling (CBM) may be just what you need to increase the speed and reduce the disruption of Digital Reinvention within your enterprise. You can use CBM to help examine organizational capabilities and strategic priorities, as well as to identify gaps and opportunities and develop a reinvention road map.

Getting where you need to be – faster

CBM allows you to make customer issues and experiences the primary evaluation criteria for future capabilities modeling. At the same time, with CBM, Digital Reinvention can be “modularized” – broken down into a set of smaller activities – allowing you to determine the pace and timing of change. This information can help you identify and manage the impact on processes and culture. In this way, CBM both accelerates Digital Reinvention for customers and moderates the effects on employees. With a manageable number of discrete, reusable components, you can identify opportunities for improvement and innovation, employing a sharp focus on the core capabilities needed to run the business and drive business strategy.

By using CBM to jumpstart Digital Reinvention, you can generate actionable insight very quickly. In just a week or two, a CBM map of an enterprise can help you determine competitive levels and establish an initial view of the economic contribution of each business component. Once all components have been identified, and the necessary business leaders agree the

component map reflects reality, identifying opportunities and priorities for Digital Reinvention becomes much clearer.

A CBM map will help determine if you need to enhance capabilities in order to digitally reinvent. Or perhaps you’ll need to build entirely new capabilities – such as digital marketing or cognitive analytics – to create the experience your customers desire. And that desire, increasingly, is for personalized experiences. In fact, 71 percent of CEOs believe they will need to focus more on treating customers as individuals and not as part of a segment.⁴

Armed with this new view of the business, you can take the following four steps and watch for themes for your Digital Reinvention to emerge.⁵

Step 1: Create a Digital Reinvention blueprint: Hold envisioning sessions to ideate new business models and exciting customer experiences. Make it collaborative and invite customers, suppliers, business partners and other relevant actors in your industry.

Step 2: Start small, grow fast: Pilot small, well-contained Digital Reinvention programs. Allow selected customers to opt-in, “kick the tires” and provide feedback. Scale quickly, building upon successful experiments and shutting down or changing unsuccessful ones.

Step 3: Deepen capabilities: As pilots progress, continuously monitor limitations and impediments in your ability to deploy or scale new capabilities. Based on your component map, build or buy skills to extend existing capabilities or create new ones.

Step 4: Focus on ecosystems: True Digital Reinvention looks at new business models and customer experiences holistically rather than as a discrete series of interactions. Decisions around with whom and how to partner will become increasingly strategic, shifting from simply “low-bid” or familiarity, to include the ability to enhance the overall customer ecosystem. In addition, you can use CBM to help decide which components you can “insource” through an ecosystem, instead of owning and driving these components in-house.

Creating a business map

The more disruptive the Digital Reinvention, the more you need to think about how your business is organized and managed. For example, shifting from selling machinery to selling information-based insights would likely require a corresponding (large) shift in skills, technologies and measurements. By analyzing individual business components, it is much easier to determine if you have sufficient capabilities in-house or if you need to build, acquire or partner for new ones. The ecosystem where you operate may need to be revamped or enriched with new partners.

It's important to understand what a business component is and isn't. It need not correspond to any existing organizational structure (such as silo, function, back office or front office).

Instead, a business component is a logical view of part of an enterprise that includes the resources, people, technology and know-how necessary to deliver some valued output. It's a building block – a capability that has the potential to operate largely independently within the enterprise or – in extreme cases – as part of another company.

A few characteristics of business components are fairly common. They tend to include:

- Discrete boundaries, defined by the business services that they offer
- Resources, people, technology and know-how necessary to deliver some value
- Logical "cleave points" for natural separations
- Attributes, such as cost, revenue and importance to the business.

All the components can be portrayed on a “business component map.” In most cases, the map will fit on a single page (see Figure 1).

In a retail bank, for example, account services planning, fraud detection and billing and payments are three business components that may fall within account services. There may be dozens of business components within a large enterprise.

Identifying business components should be a non-disruptive activity that can be completed in just a few weeks. It’s important to remember that

this component view is substantially different from a process view. Business components generally represent what an enterprise is doing, not how it is being done. Processes and activities are more focused on how. While these pursuits are complementary, components are more directly enabling of strategy than are processes. Viewing a business as a set of components helps identify potential overlaps in functionality, technology platforms and enabling tools across the various functional areas.

Figure 1
An example of a business component map

	Business administration	New business development	Relationship management	Servicing and sales	Product fulfillment	Financial control and accounting
Directing	Business planning	Sector planning	Account relationship	Sales planning	Fulfillment planning	Portfolio planning
Controlling	Business unit tracking	Sector management	Relationship management	Sales management	Fulfillment planning	Compliance
	Staff appraisals	Product management	Credit assessment			Reconciliation
Executing	Staff administration	Product directory	Credit administration	Sales	Product fulfillment	Customer accounts
	Production administration	Marketing campaigns		Customer dialogue	Document management	General ledger
				Contact routing		

Experiencing the benefits of CBM

Ultimately, employing CBM is not an end; it is a means to an end. It provides you and other business leaders with a significantly clearer view of critical Digital Reinvention opportunities, including:

- *Strategy* – helping to align business capabilities and investments to the overall strategy
- *Sourcing and partnering* – identifying non-differentiated parts of the business that may be better served by a partner
- *Digital and technology* – applying existing investments to support increased flexibility and responsiveness
- *Mergers and acquisitions* – enabling a comprehensive, non-siloed view of organizational capabilities
- *Transformation initiatives* – integrating business and technology transformation roadmaps with the overall strategy.

This effort helps focus first on “hot” areas – those highly strategic areas that may present the most significant Digital Reinvention opportunities for building improved customer experiences and continuously innovating. CBM can accelerate that transformation, providing a meaningful edge over slower-moving competitors.

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Notes and sources

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