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a newsletter on practical strategic thinking and action
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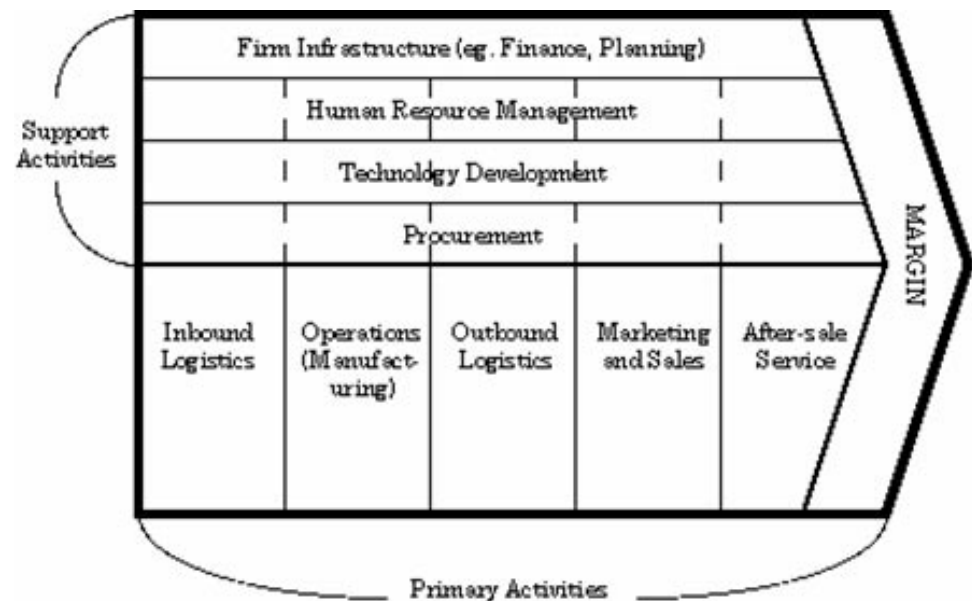
Have you noticed how the pace of change has accelerated in recent months? It seems like everywhere you turn, people are talking about innovation. Unfortunately, this word will soon be overused, but the potential promised by the word has only begun to be realized. One of the most exciting areas of innovation today is in the way companies organize themselves. This month, we look at the explosion of the classic business model that is at the core of this change.

In Strategic Thinking, we explain the trend of business model innovation; and in Strategic Action, we give you some ideas on how to take a fresh look at your own business model. In the Industry Snapshot, we look at this trend in the context of IT department outsourcing. Finally, our Reading List reviews *The Future of Knowledge* which provides new perspectives on how to think about the business model once you have blown it up!

strategic thinking

The Explosion

If you want to describe a business, chances are that your thinking will be based on the value chain model introduced two decades ago by Michael Porter:



Source: Michael E. Porter, *Competitive Advantage*, NY: The Free Press, 1985.

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This linear, compact graphic represents the full spectrum of the typical business model in an industrial age company. It includes both an end-to-end production process and a full suite of support activities. In this industrial model, all of these functions are provided by employees of the corporation.

Thanks to the changes brought about by the Internet, other technological advances and improved communications, this approach is less and less helpful in describing a business model. All or part of the functions inside these boxes are frequently outsourced to a partner. This includes support services such as IT, HR, and even pieces of Finance. But some of the most interesting “outsourcing” is happening in the functions that were once defined as “primary” to the corporation.

The Tata group in India is developing a \$2,000 car that will be shipped as components and assembled by roadside dealers (totally skipping the manufacturing box). UPS is taking over printer repair (the after sale service box) for HP because, as it turns out, the logistics of moving broken printers is much more complicated than the repair itself. The Indian cellular company, Bharti, outsources its entire network to companies like Ericsson, Nokia, and Siemens—functioning exclusively as a marketing and customer service company. Air Canada is building stand-alone businesses around functions like maintenance, which in the past existed just to service its own operations. All of these companies view the traditional value chain as a puzzle that can be broken apart and re-assembled using different players.

How can you learn to think outside the business model box? Read on in Strategic Action for inspiration and ideas.

-Mary Adams (adams@trekconsulting.com)

strategic action

Take a Fresh Look at Your Business Model

Moving forward, business models will not be compact and linear but rather dispersed and interconnected. Many people are using the word “network” to describe this kind of business model. In a value network, the challenge will be to identify the core functions—the central identity upon which to build your business. Defining this and getting better at it every day, while partnering with a specialist for everything else, will be the key to success.

It is worth spending some time thinking about “blowing up” your business model. Start with the value chain drawing from above. Then ask yourself:

- What are we really good at?
- What are we not good at?
- What could someone else do for us more efficiently?
- Where should we focus our efforts going forward?



A good way to assess the bottom line for these questions will be to focus on your firm's intellectual capital:

- Who are your best people?
- What do you know how to do?
- Which of your external relationships can be leveraged for future gain?
- What is the smartest way to manage your process?

The resulting business model probably won't fit inside a neat box like the value chain model. But, it could create some incredible leverage for your business. You might as well do this because, if you don't, one of your existing or future competitors may beat you to it.

- Michael Oleksak (oleksak@trekconsulting.com)

industry snapshot

Exploding Corporate IT

We have been working with a large company that has been considering the option of outsourcing their entire IT department. This is an extremely traumatic decision that has the potential to affect the lives of hundreds of people in this one company alone. The size of the change guarantees that it will not be simple or perfect.

This company, and many others long ago, outsourced functions ranging from janitorial, cafeteria and security services. More recently, this trend hit the IT department with the outsourcing of simple coding, help desks, and other "lower-level" tasks. Why are they now ready to jettison their entire IT department? The truth is that this function has become a generic activity at its core. Every company spends time making an identical set of decisions and supporting a basic infrastructure that is not very different from other companies. Add to that the underutilization of most equipment, and you can see the potential benefit of economies of scale.

Will this company, and others like it, get these economies of scale right away? The truth is no. But the lessons they learn about how to manage the process, how to pick partners, and what functions to keep in house will serve them well in the future.

We believe the big upside to this trend may be to free companies from focusing on technology, so they can focus more on their underlying business. Then, maybe, CIO's will truly be Chief Information (or even Innovation) Officers—not technology departments.



For further insight on this trend, read "The End of Corporate Computing" (<http://sloanreview.mit.edu/smr/issue/2005/spring/13/>) by Nicholas Carr in the MIT Sloan Management Review. This article makes the comparison between technology outsourcing and the transition to outsourcing of power generation that occurred 100 years ago.

reading list

The Future of Knowledge: Increasing Prosperity through Value Networks
By Verna Allee

We use the word "network" above in trying to describe new business models. This is an intriguing idea but not one that has received a great deal of broad exposure in the business press. This book by Verna Allee does a great job of putting this new vision of business models in perspective.

Ms. Allee makes the link between intellectual capital, knowledge management, and "value networks." The book includes an introduction about how to map networked business models and understand the value flows from internal and external partners. It specifically examines the role of intellectual capital in the creation and monetization of value.

This is great reading for managers trying to think creatively about their own business models. To read more about this book, visit the author's web site: http://www.vernaallee.com/VA/Recommended_Books.html.

announcements

We recently updated our website to include many more ideas and resources about contemporary challenges facing corporate leaders. Please pay us a visit at www.trekconsulting.com.

Mary Adams was quoted in an article entitled, "Your Bank: A Partner in Profit," on how bankers think. "There is always a Plan B, so be able to answer the basic three questions: 1-What is the money for? 2-How will you pay it back? and 3-If that doesn't work, how would you pay it back then?"

In next month's issue, we ask the question: Blink or Stare?



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about trek consulting

Trek Consulting LLC helps companies to face the challenges of growth, building value and dealing with change. Since 1999, we have been a valued partner to business owners and leaders on their arduous journey to business success. We know that we cannot make this journey for our clients, but we can make it easier and more successful. We focus on getting you the best information available, facilitating sound planning and decision-making, making sure you have the right skills and resources to face your challenge, and coaching you through the road-blocks that invariably arise along the way.

Our clients report improved market focus, greater revenues, better margins and increased profits. To learn more about Trek Consulting and how we can help you improve your company's results, visit us on the web at www.trekconsulting.com or call us at 781-729-1008.