



ENABLING GROWTH THROUGH BUSINESS MODEL INNOVATION

CHANGE IS THE ONLY CONSTANT



The saying “Change is the only constant” has never been truer than in today’s global economy. Change, or as Joseph Schumpeter coined it, “creative destruction,” is essential for achieving growth and moving forward. As organizations seek additional growth beyond their existing markets and activities, executives look beyond the existing business model to introduce entirely new ways to monetize capabilities, collaborate with partners to define new value propositions for customers, or enter new markets with an entirely new offering. Global competition necessitates that even organizations in the most traditional of industries look for differentiation beyond their product line, and successful business model innovation brings ongoing differentiation. No longer is this phenomenon applicable only to a short list of large, well-known, innovation-driven organizations in fast-changing industries. Rather, entrepreneurial spirit and enabling technologies have given life to new business models such as shared services, offshoring, e-commerce, and virtual supplier collaboration, among others, across all industries.

It doesn’t come as a surprise that global executives, in a survey conducted by Economist Intelligence Unit and sponsored by SAP AG, believe future competitive advantage will be based on business model innovation rather than on products or services. More than half of the participants didn’t see new products or services as the basis of their competitive advantage; instead, they look to the introduction of new business models.

This *SAP Executive Insight* explores the most common areas of business model innovation, describes how organizations are leveraging innovation in different parts of their business, and shows how to implement a solid and adaptive foundation that is flexible enough to support rapid innovation.

- What are the main dimensions of innovating on my business model holistically?
- How do I enable my organization to pursue business model innovation?
- What role does software play in supporting my business transformation?

EXECUTIVE AGENDA

AT A GLANCE

Business Model Innovation

Innovation has many dimensions. For a long time, innovation referred to new-product development in R & D labs. Business model innovation is broader and impacts the enterprise holistically. It doesn't necessarily focus on doing new things, just on doing things differently. Business model innovation can be pursued along three dimensions:

- **Customer-centric innovation.** Changing the way you interact with customers, such as redefining the customer experience or the market you serve, can be a way to grow your business.
- **Supply chain-centric innovation.** By collaborating differently with suppliers, you may be able to improve design, fulfillment, and sourcing initiatives to drive growth. Implementing new technologies, such as radio-frequency identification (RFID) inventory control, may improve efficiencies, increase sales, and enable you to build an ecosystem that leverages your extended partner network to transform your supply chain.
- **Organizational process innovation.** Redesigning core functions, such as HR and finance, and introducing a shared-services organization enable you to externalize internal processes to increase efficiencies and enable greater flexibility, shifting the purpose of these functions from a focus just on reducing costs to acting as true agents of change.

The Adaptive Enterprise

There is power in growth based on business model innovation. That's because it's much more difficult for competitors to imitate business model innovation than innovation based on a new product. New business models are much harder to copy than a new product, since they are less transparent to outside observers and are dependent on organization-specific competencies. Most of the key competencies of organizations that are able to differentiate based on business model innovation have a culture of flexibility that:

- Facilitates change while existing business models are still successful
- Empowers people and enables processes to be adapted easily to change
- Establishes an organization that is open to change and collaboration among employees, customers, and suppliers to ensure broad-based involvement that sustains later success
- Instills cross-functional thinking to spur innovation
- Scans internal and external organizational environments for new opportunities

The Importance of IT

The role of IT in the enterprise has evolved over many generations of major technology breakthroughs. For a long time, the main focus of IT was on the ability to lower cost in the enterprise by hard wiring processes and ensuring total compliance from users. While this approach helped to reduce costs significantly and fit well-defined processes, it hindered innovation. Defining a new process and changing the underlying technology required lengthy and time-consuming modifications to existing hardware and software. In addition, legacy systems and multiple instances of core software prolonged any decision to implement change.

Today's new generation of IT addresses the challenges of the past and supports a greater need for flexibility. With the introduction of enterprise service-oriented architecture (enterprise SOA), organizations can establish a business-driven software architecture that increases adaptability, openness, and cost efficiency. Enterprise SOA supports business requirements by elevating the design, composition, and management of Web services to address enterprise requirements. Instead of just enabling one process, organizations can improve their reuse of software components to respond more rapidly to change. By assembling these services, organizations can form composite applications that draw functionality from different sources to support the fast reconfiguration of the entire business system.

CUSTOMER-CENTRIC INNOVATION

REDEFINING THE MARKET

Volvo Aero Services

Industry: Wholesale distribution

Summary

Volvo Aero Services Corp. is a leading provider of aftermarket parts and services for the aviation industry. The company chose SAP® software to enable an evolving business model and to achieve operating efficiencies. Now, by using a technology platform that integrates with both Volvo and industry partners, Volvo Aero Services can deliver its traditional and expanding services with greater efficiency.

Results with SAP® Software

- Superior integration with suppliers and customers
- Faster response time to service requests: 1-day orders from receiving to cross-dock (up to 93%) +35%
- On-time deliveries (up to 97%) +18%

The Customer As the Focal Point of Innovation

Some of the most innovative and successful new business models are not based on a new product but on framing an existing product differently in terms of the market it serves and how the customer experiences the product. Some examples of customer-centric innovations include:

- **Redefining the customer experience.** With the advent of new communication and distribution channels, such as the Internet and mobile devices, organizations are challenged

to keep up with the many possible ways of maintaining an ongoing discussion with customers through these channels. New business models enable organizations to use these channels as a means to deepen their relationship with existing customers.

- **Addressing needs that surround the main product.** Organizations that have a strong brand in their existing market are often able to leverage this brand into adjacent opportunities in entirely new businesses. For example, airlines that not only provide transportation services but also offer credit cards to customers.
- **Redefining the market segment.** Your definition of the target market is often an essential component in unleashing phenomenal business model innovation – for example, an airline that defines competition not only as other airlines but also as other modes of transportation, such as trains, buses, and automobiles. Airlines that define their competition this way have been able to innovate their business model to reach completely different price points.

Enabling Customer-Centric Innovation

For many large and established businesses, customer-centric innovation provides a major opportunity. But an existing customer base is often a hidden asset because knowledge of the customer is spread across many parts of the organization. This lack of a unified customer view distorts the view of the market and inhibits the ability to

open new channels. To solve these issues, an organization must accomplish the following:

- **Develop customer insights and understand customer needs.** You require an integrated view and integrated management of the customer relationship. To achieve this, remove silos of information. Master-data management of customer data and customer relationship management software are key enablers. Accomplishing these tasks will also enable you to serve existing customers better.
- **Identify and enable new channels.** Leaping ahead of the competition by providing content and products through multiple channels requires a flexible e-commerce platform. A flexible platform also benefits public service organizations, enabling direct, multichannel access to online services and forms – so government services can be delivered more efficiently, affordably, and 24x7.
- **Optimize pricing.** The market expects pricing that is in line with competition. The ability to effectively control yield management or adjust the price of goods or services in response to various market factors such as demand or competition is key in remaining competitive and meeting customer expectations.
- **Improve responsiveness and service.** With a common IT platform, you can react quickly to inquiries from your customers or constituents, providing fast and consistent turnaround for requests and feedback.

SUPPLY CHAIN-CENTRIC INNOVATION

DEMAND-DRIVEN SUPPLY NETWORKS

Reconfiguration of the Supply and Delivery Model

Some of the business model innovations that are most often cited in business literature stem from a reconfiguration of the supply chain – for instance, a computer manufacturer that is able to collect money from customers before paying suppliers or a retailer that is able to replenish products the moment they are taken off the shelf. Cutting lead times from weeks to days, reducing inventory to almost nothing, and increasing on-time delivery to close to 100% can fundamentally alter your competitive situation – but it requires new ways of doing business instead of incremental changes.

While manufacturers have always believed that long production runs lead to higher profitability, this is no longer the case. Demand-driven supply networks actually post a better ROI through production runs that are theoretically less efficient by being able to shift manufacturing quickly to the most profitable products. Some ways these supply chain-centric innovators challenge conventional thinking include:

- **Collaborating outside organizational boundaries.** While sharing information such as demand forecasts is a step in the right direction, driving visibility to actual customer demand is a key differentiator.
- **Leveraging information to make better decisions.** Collect powerful real-time information by being early adopters of technical innovations such as RFID.
- **Keeping the customer in mind.** Don't innovate for the sake of the

supplier. Pursue a key value proposition, such as low-price leadership, for the customer.

Enabling Supply Chain-Centric Innovation

For organizations that don't have a strong and dominant position, enabling supply chain-centric innovation might be more difficult, but it's not impossible:

- **Enable information visibility internally.** Establish information visibility and tight process integration across R & D, manufacturing, contract manufacturing, the supply chain, and customer service.
- **Build trust in your ecosystem.** Your ecosystem of partners, suppliers, and customers is only as good as the trust they have in you to deliver. Leverage pilots before placing a big bet, and share some of the benefits early on. Some of the biggest hurdles in developing breakthrough approaches to innovating along the supply chain stem from basic incompatibilities in processes, procedures, and viewpoints.
- **Leverage simulation tools.** Even the best plan fails when it isn't flexible. Eliminate surprises and reduce response times by leveraging simulation tools to analyze different responses to each contingency.
- **Focus beyond the enterprise to the network as a whole.** On the customer side, this means driving forecasting and visibility past the distribution center to the source of demand. On the supply side, this means extending past traditional purchase orders to supplier availability and capability.

DIRECTV

Industry: Media

Summary

DIRECTV Inc., the largest U.S. direct broadcast satellite provider, serves more than 18 million customers in the United States and Latin America. Faced with increased competition from local cable and alternative satellite providers, DIRECTV selected the SAP® Customer Relationship Management and the SAP Supply Chain Management applications to engage in a major supply chain transformation. DIRECTV was able to simultaneously bolster the bottom line and drive the top line while strategically differentiating itself from peers.

Results with SAP® Software

- Increased purchasing volume by 3 to 5 times without adding employees
- Improved logistics process between extended business partners (equipment providers) and key channel providers
- Facilitated customer access to broadcast services and increased competitive advantage
- Improved checking and verification process for returns, reducing the amount of improper customer deductions and associated reconciliations
- Gained a scalable, real-time solution that better positions DIRECTV to continue double-digit revenue growth

ORGANIZATIONAL PROCESS INNOVATION

FROM COST TO PROFIT CENTER

Kawasaki Rail Car

Industry: Industrial machinery and components

Summary

Kawasaki Rail Car (KRC) Inc.'s New York plant does complete fabrication, assembly, rehabilitation, and functional testing of all types of passenger rail cars, while KRC's Nebraska plant has state-of-the-art capabilities to build different types of cars. A legacy system at KRC limited the organization's growth and ability to improve its operations. It also lacked the ability to connect with Kawasaki Heavy Industries worldwide locations. Further, it could not handle invoicing and parts tracking for an aftermarket parts business, which led to significant customer service problems. With the SAP® ERP application, KRC integrated its information silos and transformed its business.

Results with SAP® Software

- Started and grew an aftermarket parts business to US\$6 million in just 2 years
- Combined corporate, project, and manufacturing offices under 1 roof to improve synergy and lower costs
- Increased customer satisfaction with better ability to track delivery dates and ship products in a timely fashion

internal functions into major success factors. Those innovations can be grouped in two broad categories. One takes current administrative functions and transforms them into true strategic enablers of business model innovation. The other makes internal processes part of the business model transformation by providing internal services to the external market.

- **Moving from cost control to strategic advisor.** The finance department is becoming a true strategic advisor. No longer focused exclusively on counting beans, the finance department measures and drives decisions on key performance data, ensures compliance with regulations, and advises on acquisitions. Similarly, HR is essential for business model innovation through flexible workforce planning and support for organizational changes, in particular in mergers and acquisitions.
- **Offering internal capabilities externally.** By being a shared-services provider internally and defining the interfaces to other internal organizations, organizations have the basic infrastructure in place to extend internal shared services externally. This ability creates a profit center for the organization and changes an organization's business model at the core.

Enabling Internal Business Process Innovation

An organization's ability to leverage internal services to enable business model innovation depends on the maturity of the organizational model.

- **Adopt a shared-services model.** Shared services as a business model has been around since the late 1980s. Performance improvements in the 20% to 30% range across all dimensions are typically cited, and some successful shared-services implementations quote benefits in the 40% to 50% range.
- **Harmonize data across organizational entities.** Shared services, as the keeper of master data, becomes the strategic advisor to the business. Take, for example, an effective global talent strategy. Combining performance feedback with training data, development plans, succession plans, skills, and compensation information on a global level enables a true global workforce strategy, resulting in the highest employee engagement and impact on top-line growth.
- **Stay current with regulatory requirements.** With an integrated platform, you can adapt quickly to new requirements and regulations, so your organization can more easily transform in order to operate in changing environments.
- **Move to a single platform.** An integrated software platform reduces total cost of ownership, as there are no interfaces to build and maintain. It also reduces transaction costs, as time spent on conducting data audits, performing reconciliations, and eliminating data inconsistencies goes away. But more importantly, an integrated platform improves decision making, because there is only a single source of truth for critical information.

Building the Foundation for Rapid Business Model Innovation

Step changes are essential parts of the business model innovation process that organizations must make to transform

BLUEPRINT FOR BECOMING AN ADAPTIVE ENTERPRISE

ACHIEVING TRUE DIFFERENTIATION

Business model innovation is not a one-time event but rather a systematic approach to business that is based on the flexibility of your enterprise. Becoming an adaptive enterprise means establishing a flexible infrastructure that listens to customers and leverages the entire ecosystem to create differentiated customer value. As your business pursues business model innovation that might be radically different from the way you do business today, keep in mind the following pointers:

- **Think holistically about your business model innovation.** The whole is indeed larger than the sum of its parts when it comes to business model innovation. It helps to think about innovation as described in this paper. But innovation in the supply chain will have an even larger impact when you align it with customer-facing innovation.

- **Pilot and experiment with your innovations.** The goal of business model innovation is to enable growth through true differentiation. The rewards are tremendous, but so are the risks. Pilot and experiment in controlled environments before turning the entire business on its head.
- **Enable your business to innovate.** Perhaps most importantly, remove any barriers to continuous business model innovation. Put enablers in place that allow you to quickly and flexibly change your business model. New technology breakthroughs, such as enterprise SOA, are a critical element.



Further Reading

To learn more, please visit www.sap.com/usa or contact your SAP representative about the following:

- *SAP Executive Insight Series on Growth*: Read SAP's complete series on growth, including growth through merger and acquisition and organic growth
- *SAP Executive Insight: Demand-Driven Supply Networks: Advancing Supply Chain Management*, 2006
- *Port of San Diego Business Transformation Study* – Public sector
- *Midwest Office Supply Business Transformation Study* – Business products reseller
- *DIRECTV Business Transformation Study* – Media
- *World Kitchen Success Story* – Consumer products
- *Kawasaki Rail Car Business Transformation Study* – Industrial machinery and components
- *Endress+Hauser Success Story* – Manufacturing

Enabling Innovation-Based Growth with SAP

The value engineering (VE) team at SAP demonstrates how to leverage SAP® software to drive the success of innovation-based growth objectives. The VE team provides support throughout the value life cycle, from developing the business case to sharing knowledge on how to maximize the value of your investment in SAP software. Each year the team completes more than 1,500 business cases to help ensure that IT projects are not simply on time and within budget but are also “on value.” Under the leadership of Chakib Bouhdary, the VE team consists of more than 175 professionals providing in-depth industry and business process expertise in strategy, IT planning, global deployments, and benchmarking. For more information, contact value.engineering@sap.com.

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