BUSINESS SOLUTIONS ON DEMAND:
Creating Customer Value at the Speed of Light

Chapter 1: Business Strategy and Transformation

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BUSINESS STRATEGY AND TRANSFORMATION

INTRODUCTION

Managing a successful company is tough. The pressures are greater than ever. Satisfying the often conflicting needs of customers, shareholders and employees has never been more challenging. Increased competition and unpredictable change mean it is no longer enough for business leaders to maintain a steady hand on the tiller. To succeed they must plot a course, sail rough seas, explore uncharted waters and be prepared for the unexpected along the way.

Business strategy is about deciding what to do. It requires more than best practice benchmarking, cost reduction initiatives and one-off process re-engineering. These are often focused on operations. Business strategy is grounded in a vision of the future and is oriented towards innovation and growth. Only when you know where you are trying to reach can you work out how to get there. A business design provides a blue print for the acquisition and development of capabilities, enablers and the customer interface needed to create and deliver customer value. New business designs are emerging.

Today's business environment

Powerful forces such as globalization, deregulation and greater access to capital transformed business during the 1980s and 1990s. New management approaches, information technology, the Internet and increasing customer power have altered the competitive landscape forever. Customers are more demanding - some want lower costs, others want solutions. Markets have become saturated and competition in many industries is intense. Today, industries are converging and change is unpredictable. Many products and services are similar, perhaps commoditized. To succeed companies must innovate, grow and reduce costs simultaneously.

The economic growth of the late 1990s ended with a downturn in most economies. The new economy of continual growth was short-lived. After 2000, expansion plans were put on hold. Cost-cutting started. The events of September 11th 2001 and the subsequent explosion of global terrorism changed the geopolitical landscape. As if things were not complicated enough, a string of corporate scandals undermined the public's trust in private enterprise and increased demands for greater inspection and regulation.

BUSINESS LEADERS FACE INCREASING PRESSURE

Nowhere is the pressure for better performance greater than at the very top. According to a survey carried out by consulting firm Booz Allen Hamilton, "Companies are setting higher standards of performance for chief executive officers than ever before, and CEOs are falling short in record numbers." Charles Lucier, at Booz Allen Hamilton commented, "Business leaders are enduring scrutiny and pressure unseen since the Great Depression… There is no longer any safe haven for chief executives who can't deliver superior results."[1]

Corporate responsibility

Charitable and governmental organizations have long been aware of their responsibilities and commitments to the communities in which they operate. Companies and their employees willingly give their time and money to charitable causes. However, for much of the 20th Century, it was rare to find environmental and societal issues as top priorities in most private companies. Things have changed recently. There is more awareness of equality of opportunity, "green" issues and social responsibility. The many corporate scandals and financial irregularities have brought the latter to the fore. Executives are distracted by the need to satisfy new rules. The need for reporting has increased. There is some risk too that governance worries may encourage business leaders to become overly conservative at a time when more innovation and growth are needed. The need for strong leadership, moral commitment and a renewed focus on creating value has never been greater.

Today, the symbiotic relationship between companies and their communities is better understood. Many business leaders would concur with the view expressed by Lou Gerstner, former Chairman and CEO at IBM, "corporations

[1] Booz Allen Hamilton. "CEO Succession 2002: Deliver or Depart", bah.com, 12th May 2003

succeed only if they operate in a healthy and vibrant society. They need the communities where their customers and employees live to be strong, as much as they need successful research, planning and advertising. Contributing to their communities is, therefore, good business, too."[2]

The Internet enables charities, environmental groups and communities of consumer interest to come together across the world and has increased their power. Today, environmental issues influence political, economic and corporate policy-making. Some of the world's largest oil companies are reinventing themselves to stay in tune with public opinion. They are changing their brands, adapting their business designs, executing new strategies and investing in new markets such as renewable energy. In the future, pressure from future generations may cause more change in industries deemed to be environmentally or socially "unfriendly".

Tough new legislation relating to the disposal and recycling of consumer goods, such as refrigerators and cars, has forced manufacturers to redefine their product lifecycles. Sophisticated buyers are beginning to question the need to own products at all. There is more demand for services. According to environmentalists Paul Hawken and Amory and Hunter Lovins, "mere product-sellers will become suspect. Why – a prospective buyer may ask – if your product delivers its service with all of the operational advantages you claim, don't you want to capture those advantages for yourself by owning the product and just providing me with its service?"[3]

Partner value

For much of the 20th Century, manufacturing was the main driver of growth. Economies grew along with large corporations. This growth rested on massive investment, managerial control, mass production, standardization, and the creation of large markets through lowering costs and prices. Aggregation worked. The vertically integrated enterprise became the dominant organizational model. Many of the world's largest companies, such as Ford, owned and managed their entire value chains. They controlled brands, technology, access to markets, customers, capital and business talent.

Today, competition has increased and change is unpredictable. Success depends more on agility and focus. Customers are more demanding and companies must "sense and respond" to their needs. New technologies such as the Internet allow companies to come together in value networks, where scale is less important. In the past assets and managerial structure were added to support growth. In the future, networks of companies will come together to innovate and create growth. A network economy is emerging in which success will be achieved by focusing on the very few powerful forces operating in any arena and harnessing them to create exceptional customer value.

Partnering reduces costs, improves focus on core competencies, can help a company enter new markets and provides opportunities to create exceptional customer value. According to a recent report, "Of the 403 executives surveyed on this subject by the Economist Intelligence Unit, 65% reported that their company's dependence on external relationships to achieve business objectives had grown substantially over the past three years. A similar proportion expected that dependence to increase significantly again over the coming three years."[4]

Partnering comes with its own challenges. Most companies have little experience in finding, attracting and building relationships with strategic partners. Successful partnerships are built on enduring relationships between individuals and groups. They require investment over time, exceptional mutual understanding, extraordinary trust and a clear sense of purpose.

Employee value

For much of the twentieth century, manual workers were common in most organizations. Managers were concerned with how to organize their work and how to improve their productivity. Today, knowledge working has replaced physical labour in many industries. The knowledge worker, "the man who puts to work what he has between his ears rather than the brawn of his muscles or the skill of his hands"[5] is now predominant. Knowledge-intensive industries, such as software and biotechnology, have emerged. Even industries such as manufacturing and retailing rely on more information.

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[2] Louis Gerstner, "Who Says Elephants Can't Dance?" HarperCollinsPublishers, 2002 (P273)
[3] Jeremy Rifkin, "The Age of Access", Penguin Books, 2000 (P90)
[4] The Economist Intelligence Unit, "Extending the enterprise", 1999 (P4)
[5] Peter Drucker, "The Effective Executive", Butterworth-Heinemann, 2001 (P3)

In many services organisations, assets such as client relationships, goodwill, ideas and talent are intangible and people oriented. Over a decade ago, Fred Moody wrote in the New York Times Magazine, "Microsoft's only factory asset is the human imagination."[6] Today, physical assets, such as industrial machinery, are rarely sources of sustainable competitive advantage. When motivated, employees create value through their ideas and their ability to innovate. The work force, and how it is organized and managed, is an increasingly important source of competitive advantage.

However, the job for life is a thing of the past. Few workers have career horizons of more than five years and many have several careers. Valuable information exists in employee's heads in the form of knowledge – of how a process works, a machine operates or a technology integrates. Knowledgeable employees are in short supply and prone to move on if they are not treated well. As they move between companies, they disseminate valuable knowledge. Companies are under pressure to attract and retain their human assets, a "war for talent" is raging.

The best and most successful employees want to work for the best and most successful companies. Most employees want a career, a decent rate of pay, respect from co-workers and a boss who supports them. Some employees are even more powerful and demanding. A recent study concluded that factors such as corporate social responsibility (CSR) are beginning to figure heavily in an employee's choice of employer, "there is an accumulation of evidence which shows that an organization's reputation in the field of business ethics and CSR can tangibly affect its attractiveness as an employer. In a tight labour market, a positive employer "brand" can make a real difference."[7]

The most educated, highly motivated and capable employees are in short supply. A new generation of software tools is emerging to help employers manage their costs, for example, by improving utilization rates in services industries. Similarly, tools are emerging for workforce development. These tools aim to improve productivity by enabling managers to match skills to positions and which will help identify the best employees and support succession planning. Technology will enable internal forecasts and external trend analyses to be combined to provide better forecasting of work force needs.

Shareholder value

Many people lost their investments in the crash that followed the hi-tech and Internet stock boom of the late 1990s. Today, investors have little hunger for a return to the roller coaster of fortunes experienced then. Investors are more conservative and want to avoid great risks. Today they want a reasonable rate of return balanced over the short and long term. Investors want steady growth and more consistency. If a company does not create shareholder value through earnings, investors will withdraw their money, stock value will drop and access to future capital will be blocked.

Investors are more knowledgeable and sophisticated. They have learned that value from assets is more important than value of assets. They know, too, that bigger is no longer necessarily better. Shareholders value profits over revenue and market value over market share. Today's sophisticated investors have moved their gaze from technology, infrastructure and fanciful business concepts to real world business strategy and design. Investors are looking for companies to innovate, grow and reduce costs at the same time. The need for innovation has never been greater.

Shareholders are more demanding and will make their voices heard on all manner of issues, from the environment to executive pay. In an article in the London Sunday Times entitled, "The rewards should be justified by the results", Peter Jauhal noted, "Executive pay is under the spotlight again, with public concern mounting over the justification being offered for some remuneration packages… we may be seeing a new activism on the part of shareholders."[8]

Despite all this, most business leaders are optimistic about the future. They continue to focus on achieving cost reductions and improving productivity. Fluctuating markets cause inefficiencies such as over-capacity in services and over-supply in industries, increasing costs. Some suppliers have introduced adaptive or "on demand" services to bring their customer's operating costs in line with market fluctuations.

According to a study conducted by the Economist Intelligence Unit, "Despite executives' expectations of better economic times, corporate strategies remain focused on efficiency discipline, cost control and lean operations. Companies are hunkering down around their core businesses, and striving to strip away any activities that don't constitute core competencies, whether through outsourcing or divestment. Mergers and acquisitions are generally

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[6] Fred Moody, "Mr. Software," New York Times Magazine, 25th August 1991 (P56)
[7] The Work Foundation and The Future Foundation, "The ethical employee", 2002 (P1)
[8] Peter Jauhal, "The rewards should be justified by the results", London Sunday Times, 7th July 2002 (Business Section)

viewed as too risky or too costly, though the slack global market offers some firms opportunities to acquire weak rivals or to "cherry pick" top talent. Instead companies are increasingly turning to looser partnerships and alliances."[9]

Best practice is operational, not strategic

Best practice benchmarking is often used to cut costs. It is one of the most widely used management tools. In many ways, it makes much sense to use best-in-class strategy, organizational structure, processes and products as models for re-engineering. It can help achieve quick improvements and is appealing to investors who often feel reassured when it is used. According to Philipp Nattermann, "Best-practice benchmarking - the measurement and implementation of the most successful operational standard or strategy available in an industry – can be one of the most effective tools for increasing a corporation's efficiency, productivity, and, ultimately, earnings."[10]

However, taking a best practice approach can turn out to be the antithesis of innovation and growth. A major drawback with best practice benchmarking is that it can ultimately kill margins. When an innovation enables a company to create a new market and capture high margins, new entrants are attracted and margins eventually go down. Margins are cut for all players in the market – the first movers, "me toos" and late arrivals. In some companies, imitating successful competitors too often determines what they do. They do not understand that best-practice benchmarking is an operational tool, not one for making strategy.

For years, companies have focused on occupying a position in the market already staked out by their quickest and most successful competitor. Soon companies begin herding, like lemmings, around the best practice companies business design. Products and services become commoditized and margins are eroded as competition increases for smaller slices of customer and industry resources. Conforming to the opinions and behaviour of others is natural human behaviour. The same behaviour applies to companies and strategy. Warren Buffett once famously wrote, "Failing conventionally is the route to go; as a group, lemmings may have a rotten image, but no individual lemming has ever received bad press."[11]

According to Philipp Nattermann, "Best practice doesn't always equal best strategy. Best practice benchmarking, rightly viewed as one of the most important tools for improving operational efficiency, can be a double-edged sword. Managers must guard against transforming what is a purely process-related technique into the overriding goal of strategic decision making. When industry competitors begin to herd around a single strategy, declining margins are bound to follow."[12]

Business process re-engineering is also an operational tool. Approaches such as Six Sigma were widely adopted in the 1990s. Business process re-engineering aims to reduce costs and complexity in the way activities are performed and at the same time improve customer satisfaction. Some companies achieved significant benefits from re-engineering process, others were less successful. While the primary goal of process re-engineering is usually improved customer satisfaction, the unstated aim is often cost reduction.

BUSINESS STRATEGY

Business strategy is about deciding what to do. It aims to create value for all stakeholders – customers, shareholders, employees, business partners and the wider society in which they all reside. While productivity improvements and cost reduction are necessary, they may not constitute good strategy. Downsizing and re-engineering provide opportunities to become as efficient as the next company. They are necessary but they are not strategic. Though short-term tactics and long term strategy are not mutually exclusive, strategy should be oriented towards innovation and long-term growth.

In today's competitive markets, change is unpredictable. Innovators, not imitators, will achieve exceptional growth over the long term. The rewards for imitation are less attractive. Competition has moved from individual products and services to the level of corporations and their entire extended enterprises. Companies now compete to create and lead industries and markets. To become an industry leader and to retain that position, a company must take charge of the

[9] The Economist Intelligence Unit, "CEO Agenda, Corporate priorities for 2003", 2003 (P2)
[10] Philipp M. Nattermann, The McKinsey Quarterly, Number 2, 2000 (P22-31)
[11] Warren Buffett, "Letter from the chairman," Berkshire Hathaway Annual Report, 1984 (Quoted from Charles Roxburgh, "Hidden flaws in strategy", McKinsey Quarterly 2003, Number 2, P35)
[12] Philipp M. Nattermann, The McKinsey Quarterly, Number 2, 2000 (P22-31)

process of industry transformation. Business leaders must invent new industries and reinvent old ones. Strategy must be oriented towards innovation and growth.

Innovation and growth

Business leaders should look for "white space" areas of opportunity on the strategic landscape. The number of such white space opportunities is almost unlimited. There is obviously some risk in a strategy that looks to identify, develop and exploit white space opportunities, but risks can be managed and first mover advantages make it worthwhile. It is no longer enough to be number one or two in an industry. Only industry leaders will create and capture exceptional value. Competitors playing catch up will inevitably cancel any advantage, so companies must innovate constantly to stay ahead of the game. They must keep inventing and re-inventing their industries (and their strategies).

Some problems with strategy today

Today, business strategy may occur at the corporate level in the form of a major investment, such as an acquisition, or divestment, like selling off a manufacturing plant or business unit. Sometimes such actions form the basis of a shift in corporate direction. All too often such strategy is thinly disguised imitation. According to Lou Gerstner, "If a management team doesn't believe that it has identified and is seriously funding new growth opportunities, then it is likely to wander off and drink the heady brew of acquisitions and diversification – and ultimately fail."[13]

Business strategy often appears in the form of strategic planning, which itself is often little more than incremental tactical planning. It is often just about making the numbers add up. When strategic planning aims exclusively to satisfy short-term shareholder expectations, it fails to be oriented towards innovation and inhibits opportunities for significant long-term growth. Strategic planning often causes strategy to be set at a Strategic Business Unit (SBU) level. It is often then broken down further to business unit functions such as sales, marketing and manufacturing. This reduces opportunities to invent or re-invent whole industries. Strategic planning can work well in stable industries but is less suited to industries experiencing big changes.

The strategic planning tools common in many companies often fail to help business leaders in identifying and exploiting white space opportunities for innovation and growth. Competitor analysis and scenario planning, for example, are largely concerned with today's competitors and optimizing positioning in today's industries. They do not help business leaders position their company against competitors that do not yet exist, in industries yet to be created. Companies that focus too much on the present will be constantly catching up with innovative competitors. Innovative competitors stay ahead by taking control of the process of industry transformation.

A vision of industries invented or re-invented in the future requires more than contingency planning around a number of likely scenarios. Scenario planning and technology forecasting can provide input to the creation of a unique and compelling vision of the future but are not enough in themselves. In a world of discontinuous change and increased uncertainty, the number of potential permutations and future outcomes is limitless. Scenario planning usually starts with the status quo and projects forward to what might be. What is required is an approach that creates a future vision of what could be and then works back to what must happen for that future vision to become a reality.

STRATEGIC VISION

It is hard enough to imagine, with any certainty, what things will be like five months ahead. Predicting the future five years ahead is even tougher. However, a vision of the future is needed before a successful business strategy can be created. The kind of vision of the future we advocate is not one that may appear if you do nothing (typically created during scenario planning). The vision we propose is one of an industry that must be created, shaped and transformed over time. For this, business leaders should seek input from the extended enterprise – customers, employees and business partners. This input should be combined with analysis and forecasts of changes in the external environment, many of which will be evident in the present.

This means asking and answering questions like: What new regulations or political legislation will be in place? How will environment issues affect the way businesses operate? Which suppliers and business partners will be important?

[13] Louis Gerstner, "Who Says Elephants Can't Dance?" HarperCollinsPublishers, 2002 (P228)

What type of employees will be required and how many of them? Where will funding come from? How might the needs of shareholders be different? Who will be customers? What will their needs be? Are their needs explicit or do they need developing? Is there opportunity to create a new need and be the first to satisfy it? Which new channels will be available? Would a direct relationship create value? Will margin exist in products or services? Who are tomorrows' competitors?

Strategy starts with the customer

For much of the twentieth century, under-supply made suppliers powerful. Change (in the form of growth) was more continuous, predictable and consistent and companies increased in size. A central objective in large companies was market share growth. Management was focused on today's bottom line. They attempted to make productivity improvements in the form of lower manufacturing costs, better product quality and reduced time to market. Companies defined themselves by what they produced rather than by the value they created for customers.

Today, greater competition, globalization and faster imitation have caused many products and services to become commoditized. In many markets, over-supply has caused saturation and profit margin erosion. The customer is now the scarce resource, not the product. Companies have started to compete for share of customer spend, not market share. Managers have shifted their focus from the activities involved in production to those involved in distribution and consumption.

Customers are familiar with many of today's products and services. They have access to more information through new channels such as the Internet. They are more knowledgeable and discerning than ever before and many demand exceptional value. Customer relationships have come to the fore. Suppliers must compete both on the quality and ingenuity of their products and through the quality of their customer relationships. The need for productivity improvements has not gone away – knowledgeable and powerful customers are sensitive to pricing anomalies.

The customer has taken centre stage. An understanding of customer needs and wants is the foundation of a successful business strategy. Peter Drucker once wrote, "There is only one valid definition of a business purpose: to create a customer. What the business thinks it produces is not of first importance – especially not to the future of the business and to its success. What the customer thinks he is buying, what he considers "value", is decisive – it determines what a business is, what it produces and whether it will prosper."[14]

According to the Economist, "… companies are redoubling their efforts to build better customer relationships. Judging from the results of the Economist Intelligence Unit online survey and in-depth interviews, this orientation will permeate everything companies do in 2003. Senior management time will be devoted disproportionately to understanding customer needs. Technology investments will aim to leverage information about customers, to tailor products to customer needs and to test satisfaction continuously."[15]

Understanding customer needs

Some customer needs are explicit and can be quickly identified. Others are less obvious and must be developed. In business-to-business settings, the most common way to understand customer's needs is via face-to-face meetings. More structured methods, tools and approaches have been developed by strategists and business consultants. Customer needs are captured using focus groups, market research and one-to-one interviews. However, trends can occur over many years. New information technologies such as data analysis software enable suppliers to "sense and respond" to trends which are difficult to identify.

Purchasing managers have become more sophisticated and knowledgeable. Today, new approaches such as total cost of ownership, supplier segmentation and reduction are widely used. Some customers invest to improve mutual understanding with their suppliers, but only if those suppliers show ability to create exceptional value. Trust may need to be established before a meaningful relationship can begin. Establishing enduring customer relationships often takes time and investment from both sides.

Some suppliers are unable to get access to new customers, which may be a prerequisite to understanding their needs. This can be a problem when a company enters a new market or introduces a new product which new customers may be

[14] Peter Drucker, "The Practice of Management", Butterworth-Heinemann, 2001 (P35)
[15] The Economist Intelligence Unit, "CEO Agenda, Corporate priorities for 2003", 2003 (P5)

unfamiliar with. Sometimes intermediaries, such as distributors, sit between suppliers and end customers and are reluctant to share information on customer needs. They may resist introducing partners to the customer through fear of losing influence or to avoid opportunities for disintermediation.

As markets evolve, buying responsibilities can shift and new customers may appear. Customers needing solutions, for example, often have different roles and responsibilities from traditional product customers. For solution customers, the specifications of the product or service are less important than their economics. For them, value resides in the process, not the product. Value is created by how the product is used, not by what it does (its features and functions). As a result, responsibility for purchasing decisions moves from technical specialists to senior administrators and business executives. When this happens, a new customer interface must be put in place.

BUSINESS DESIGN

A business design is an architecture that may be developed over a number of years. It is an outcome of a business vision and should provide a high level blueprint for the creation and delivery of customer value. It outlines the need for future capabilities (such as skills) and enablers (such as technology). It also describes the customer interface - how products and services will be marketed, sold and distributed.

According to Adrian Slywotzky, "a business design is the totality of how a company selects its customers, defines and differentiates its offerings, defines the tasks it will perform itself and those it will outsource, configures its resources, goes to market, creates utility for customers, and captures profit."[16] Through business design innovation a company configures the optimal business design for serving its chosen customers. It is not enough to wait for competitors to take the lead. Only companies that are first to see future opportunities and then first to act to exploit them will achieve competitive advantage and rewards.

Customer value

A business design is a high level blueprint for the creation and delivery of customer value. Some customers demand greater value through lower costs. Customers that want lower costs are familiar with the products and services they require and are able to chose and buy without a great deal of expert advice and guidance from intermediaries such as sales people. Customer that value lower costs will research their options, compare prices and shop around for the best deal. The products they buy are usually commoditized and cost is the key factor in determining which suppliers they choose. Personal Computer (PC) manufacturers, for example, satisfy the needs of customers for cheaper PCs through low-cost business designs.

Some customers demand exceptional value through solutions. Solution customers need to solve complex problems or exploit new opportunities for value creation. They may not have the specialist knowledge or the resources required and often look to partners and suppliers for support. Suppliers help them to understand their issues and opportunities. They can provide assistance in assessing the options and will often create and deliver unique solutions by customizing services and products. Solutions are services-led. IBM, for example, satisfies the needs of its customers for information technology-enabled solutions.

Customers value the benefits provided by products but are less likely to take ownership of them. In a world of rapid change, buying products makes less sense. Some products need to be replaced or upgraded before they are even paid for. Technology enables some products to be replaced by services. Falling information and communication technology costs mean that information technology, such as microchips, can be embedded in to many new products. When technology rich products are connected to the Internet they become devices for providing services and enable the creation of customer value at the speed of light. Many manufacturers are introducing services in response to customer needs, and as product margins erode, are introducing services-led business models.

In creating a successful strategy to exploit white space opportunities, it can be helpful to think of products and services in terms of the value they create, rather than their features and functions. Thinking in terms of features and functions limits opportunities to today's products and services. Technology enables customer value to be created and delivered in new and exciting ways – the same value in a new delivery vehicle. The value a telephone answering machine creates, for example, is more effective use of time. In the past, answering machines were hardware devices, domestic

[16] Adrian J. Slywotzky, "Value Migration", Harvard Business School Press, 1996 (P4)

appliances. Today, enabled by computer software and communications technology, the same value is often provided remotely as a service.

Creating and delivering customer value requires more than being "customer-led". Many customer needs are articulated, some are not. The risk with being completely customer-led is that unarticulated needs may never be served and those needs often offer the greatest "white space" opportunities (since they are not being served by competitors either). Akio Morita at Sony said, "Our plan is to lead the public with new products rather than ask them what kind of products they want. The public does not know what is possible, but we do. So instead of doing a lot of market research, we refine our thinking on a product and its use and try to create a market for it by educating and communicating with the public."[17]

Capabilities

In 1990, CK Prahalad and Gary Hamel published an article entitled, "The Core Competence of the Corporation". In the article they advocated a focus on learning rather than physical assets and suggested that companies should exit activities that don't use core competencies.[18] Core competencies are bundles of skills and technologies that enable a company to provide a particular benefit to its customers. Core competencies are, therefore, unlike Strategic Business Units that are usually defined by specific product-markets. Focusing on core competencies encourages companies to identify and exploit what they do best and enables resources to be focused on areas of innovation and growth. Core competencies create and deliver a class of customer benefits such as "low cost" or "solution".

A business design outlines the need for future capabilities (such as skills) and enablers (such as technology). Capabilities of a company selling low cost PCs might include selling online, call centre management, build to order and inventory management skills. Capabilities in a solutions company like IBM include solution selling, business consulting, programme management, service delivery and industry marketing. Some capabilities, such as continuous innovation, knowledge management and the effective use of information technology are common to both business designs.

The wide spread adoption of the Internet and new technologies have made working with external partners cheaper and easier. More companies are abandoning many non-core activities. Core competency thinking has led some companies to define themselves in terms of what they do rather than what they make. By redefining the nature of "served market", core competency thinking offers opportunities for innovation, growth and the creation of new customer value. Focusing on core competencies may take a company away from its traditional served markets and in to competition with new competitors.

New competitors

The Prussian military expert, Carl von Clausewitz, wrote that one must judge an enemy by his capabilities, not by his intentions.[19] Most competitive analysis focuses on existing product or service markets. As companies focus on core competencies and industries converge, new and unfamiliar competitors emerge, often from unrelated industries. They may try to create a new industry for your customers based on their own vision of the future. In the UK, for example, the financial services industry is being transformed by supermarkets offering banking and insurance services. They have access to capital and opportunities for partnering, allowing them to take on the largest competitors.

Enablers

Enablers are tangible and intangible assets that enable things to get done. They include offices, factories, brands, products and employees. Today, many companies are attempting to improve their balance sheets by selling off physical assets that depreciate, often preferring to lease them instead. Partnering and outsourcing provide opportunities to enjoy the benefits of enablers without taking ownership. Companies look to own assets only if there is some advantage in doing so. Customer data, for example, is an enabler that companies seek to own because it enables better customer relationship management, although they may outsource its management.

[17] Gary Hamel and C.K. Prahalad, Competing For The Future, Harvard Business School Press, 1996 (P108)
[18] Gary Hamel and CK Prahalad, , "The Core Competence of the Corporation", Harvard Business Review, May-June 1990 (P79-90)
[19] Michael Hammer, "The Agenda: What Every Business Must Do to Dominate the Decade", Random House Business Books, 2002 (P253)

Small start up companies, particularly in knowledge industries, may rely on a just a few enablers for conducting business, relying on partnerships and externally provided services instead. Companies often have heritage enablers, assets which they may have acquired and developed over many years, which can form the basis of future business designs. IBM, for example, has a widely recognized brand that enables it to enter new product and service markets and data centres that it uses to delivery new information technology services.

The customer interface

The customer interface, the way a company interacts with its customers, is an increasingly important element of any business design. For most of the twentieth century consumer demand was insatiable and products were in short supply. During this era, management resources were focused on production. Business designs were created to sustain product sales growth and achieve maximum operational efficiency. Marketing focused on differentiation through product features and functions. The role of the sales force was to communicate product value. Distribution was about getting as much product in to the market as quickly as possible.

Greater competition, globalization and rapid imitation have caused many products and services to become commoditized. Over supply, greater choice and access to information has made customers more discerning and powerful. Today, companies are fighting for share of customer spend and attempt to build enduring relationships with customers by understanding and satisfying their needs. In many companies, marketing, sales and distribution activities, which constitute the customer interface, have remained unchanged for decades and nowhere is the need for transformation more evident.

Customers demanding lower costs are familiar with the products and services they require and are able to chose and buy without a great deal of expert advice and guidance from intermediaries such as sales people. They require a new customer interface. The costly field sales force can be made more efficient by adopting new technologies or can be eliminated all together. The Internet and telephone based call centres provide new opportunities to interact with customers demanding lower costs. Customers can access relevant information online, conduct research, compare buying options and make a purchase with the minimum of cost and inconvenience. Outbound marketing is enabled by technologies such as databases and telemarketing.

Customers demanding solutions also require a new customer interface. Customer relationship management, for example, enables better customer management over time and improves marketing to business buyers. The role of the sales force is shifting from communicating the value of products and services to creating value for customers. Today, in many industries, services form the basis of enduring relationships and are substituting traditional product-led distribution based on individual transactions. IBM, for example, has introduced industry-oriented marketing, adopted solution selling methods, developed business consulting and outsourcing service delivery capabilities to support solution creation and delivery.

Sony's strategic vision

Sony has a vision of a future in which electronics, telecommunications and information technologies are converging. It anticipates that customers will demand new products and services through broadband networks – which will be cheaper to use and more widely adopted. Sony is working towards a "personal broadband network solutions" business design. "Sony Corporation today (March 29th 2001) announced its intention to transform itself into a Personal Broadband Network Solutions Company for the coming broadband network society which is forecast to arrive around the year 2005. Sony is making organizational changes aimed at deepening its interactive relationship with millions of customers worldwide, offering a variety of products and services optimized for the broadband society. As the broadband network era approaches, Sony will capitalize on its unique combination of hardware and content assets."[20]

Nobuyuki Idei, Sony Chairman and CEO, commented, "Sony will continue to focus on and consolidate its unique resources in brand recognition, electronics hardware expertise, entertainment business know-how and venture business development both within and outside the company. In enhancing group corporate value, we will pursue "soft alliances" with outside companies that will compliment our existing internal resources, and accelerate the pace of change."[21]

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[20] Nobuyuki Idei, Sony Press Release, "Transforming Sony into a "Personal Broadband Network Solutions Company", www.sony.net, March 29th 2001

[21] Nobuyuki Idei, Sony Press Release, "Transforming Sony into a "Personal Broadband Network Solutions Company", www.sony.net, March 29th 2001

Strategies develop over the long term

It may take years before all the elements of business design are in place. Technologies and customer needs need to be developed over many years before a new industry can be created. During that time, companies begin a transformation journey. They build the factories, warehouses, technology infrastructure and hire the employees they will need. They develop new capabilities such as solution selling, business consulting or new service delivery concepts. They may need to transform the sales force or replace it entirely with new technology. Companies may need to get agreement on standards, test product and service concepts with customers and build alliances with selected business partners, to prepare for and shape the emerging industry.

When to create strategy and begin transformation

The right time to create a new strategy and to transform an industry is when a company is successful, or at least, not in crisis. During periods of crisis, business leaders are distracted by firefighting activities and the required resources are often in short supply. It becomes difficult to attract key business partners and suppliers, the most capable employees abandon the sinking ship and access to investment capital is restricted. When shareholders press for short-term performance improvements, the natural tendency is to cut costs rather than invest for the longer term. The required capabilities and enablers do not get put in place and opportunities for innovation and growth are not exploited.

White space opportunities are often spotted first by industry outsiders who then create new business designs and go about the business of industry transformation. Incumbents often tend to rely far too long on their traditional business models, particularly if they have been successful. They take the view that what worked well in the past must also work in the future. It can take a fresh set of eyes to see the wood from the trees. The challenge for industry incumbents, leaders and laggards alike, is to continually reinvent their own industries and create new ones. To do this they must develop a vision of the future, configure a business design and implement a strategy, which aims at building it. The need for business design innovation and transformation is real and immediate.

SUMMARY

In this chapter we examined the causes of change in today's business environment. We concluded that these changes have made leading a company to success much more difficult. We outlined the shifting needs of customers, shareholders and employees and suggested that the needs of business partners and society will figure more in strategic thinking in the future. We argued that while productivity improvements and the adoption of "best practices" are important, they are often confused with strategy. In reality, "best practice" is more operational than strategic.

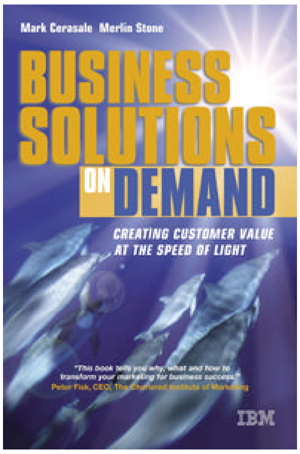
We proposed that companies invest at least as much in to looking for opportunities for innovation and growth as they do in reducing costs, although both are important. We argued that every company needs a vision (a view of how things will be different) and a strategy (decisions on what must be done) and must be capable of execution (it must be able to make things happen). We suggested that strategy should aim to create customer value, should be oriented towards innovation and growth and should be based on an understanding of customer needs (both today and in the future). We argued that strategy starts with the customer. We suggested that the needs of some customers are changing - some customers want lower costs, others want solutions.

We proposed that business leaders should attempt to transform both their companies and their industries. The company and the industry must be created, shaped and transformed over time. We suggested that a business design be created (based on the business vision) to guide the transformation. The design should outline the need for future capabilities (things the company should be able to do) and enablers (things a company should have to get things done) and describe the customer interface (how value will be created and delivered to the customer). The transformation journey can be long and difficult. It should start sooner rather than later.

In Chapter 2 we outline a transformation that took place in British food retailing, over several decades, during the latter half of the 20th Century. This example aims to demonstrate how whole industries can be transformed through new business designs that create and deliver exceptional customer value. In Chapter 3 we describe how products are changing and how low-cost business models are emerging. In Chapter 4 we describe how services are changing and how solutions business models are emerging. In the remaining chapters we explore aspects of the solutions business model, many of which are still evolving.

BUSINESS SOLUTIONS ON DEMAND:
Creating Customer Value at the Speed of Light

Mark Cerasale and Merlin Stone



KEY POINTS

- Why corporations need to provide business solutions to stay competitive
- Why business customers want to buy solutions
- What it takes to move from supplying products and services to supplying solutions
- How you can learn from the experiences of leading suppliers of business solutions

READERSHIP & MARKET

- Business leaders, marketing/sales/CRM managers and anyone in business concerned with beating their competitors by delivering a superior and faster customer experience; DMS/MBA/DBA/CIM students and lecturers.

DESCRIPTION

Based partly on IBM’s own transformation, and partly on the transformations that IBM has helped its clients to achieve, this unique book shows how companies can increase sales and improve margins by introducing a range of solutions. It draws upon IBM’s extensive experience of working with clients all over the world to help them to implement these solutions and so achieve a positive transformation, to become a "solutions enterprise". Highly readable, motivational and fast-paced, *Business Solutions On Demand* is packed with international cases and examples and numerous diagrams. The authors emphasise that for today’s business to compete and survive, it must create exceptional value for its customers. Technological advancement, globalisation, increased competition, market saturation and easy access to information are all conspiring to make traditional business models redundant. Contents include: business strategy; transformation; innovation; solution selling; solution delivery; solution marketing; knowledge management; business design and organizational change management.

“Marketing must change or become irrelevant in today's business world. Marketing needs to measure up to the expectations of customers and shareholders. To do this it needs to be more strategic and effective, more creative and commercial. This book tells you why, what and how to transform your marketing for business success.”
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“While the theme of transforming companies to being marketing-led has long been the Holy Grail of business, the authors’ slant (on business transformation) is new and original but backed with excellent analysis that moves the whole subject forward.” -*Trevor Richer, Business Development Director, Cable & Wireless*

“This book captures the essence of transformation, which is based upon the fundamental reshaping of anorganization's behaviour and values, its responses and exploitation of better ways of working. The book provides a range of competitive strategies thatorganizations can adopt in order to bring about significant improvements in business performance.” *—David Gilbert, Professor of Marketing, University of Surrey*

“The quest for efficiency on its own has often led to corporate anorexia. Effectiveness, and especially value effectiveness, is the essence of true strategy and sustainable success. Cerasale and Stone demonstrate how marketing and enterprise transformation towards integrated communications and solutions lead to high value AND high efficiency.” - *Professor Angus Jenkinson, Centre for Integrated Marketing*

"Marketing transformation IS business transformation. Unless of course you don't subscribe to the notion that customers - the data you hold about them and the interactions they have with you - are the fundamental resource of your business. This important book shows how to bring about that transformation.” - *Neil G. Morris, Deputy Managing Director, Institute of Direct Marketing*

AUTHOR INFORMATION

Mark Cerasale is a Senior Consultant in IBM's Business Consulting Services division. He specializes in customer relationship management and business transformation. For several years Mark worked as a Client Manager, providing IT-enabled solutions to some of the world's most successful companies. As a consultant he has helped many clients to improve their business performance through solution transformation.

Professor Merlin Stone is Business Research Leader with IBM’s Business Consulting Services and IBM Professor of Relationship Marketing at Bristol Business School. He is the author of over 20 books, many published by Kogan Page.

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