



**HOW TO
TRANSFORM
YOUR BUSINESS MODEL
EFFICIENTLY**

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Covid-19 has generated a series of tidal waves of unprecedented scale ... from a pandemic to economics, finance and to everybody's life ... putting the "Business Model Transformation" a high priority topic on many Company's agenda.

Business Model Transformation is certainly not a new topic but has become much more critical. It is an exercise that requires specific Leadership and Competences in order to maximize efficiency, speed ... and ultimately the chances of success ...

As a leader, my priorities were not only to operate efficiently the day-to-day business ... but also, and even more importantly, to focus on new initiatives and ensuring our Strategy and Business Model were "leading the pack".

This article is aiming at sharing my experience, as a "hands-on" Manager and now Consultant.

I aim at providing some good insights to the readers ... giving some advises through the main steps:

- Setting **clear priorities**
- Setting-up the **right processes**
- Managing **efficiently** the **Transformation Project**
- And identifying **the Key Success Factors**

1. Business Model Transformation ... what are we talking about?

A “Business Model” is mostly defined by four main components:

- The Value Proposition (*customer target, offer, USPs, pricing, ...*)
- The Go to Market (*distribution, route to market*)
- The Value Chain (*what to internalize or externalize, organization model, alliances*)
- The Value Creation (*How to monetize, Business Plan and P&L*)

Business Model are built on many factors (*such as customer target and needs, product / service USP, consumer journey, sourcing, etc ...*) and the company’s success is rooted on a superior understanding and mastering of these factors at a certain point in time. This is however a dynamic process.

The first impact of the Covid-19 crisis has been an acceleration of Digital Transformation, with a priority objective focusing on the “go to Market”. But there can be much profound changes or disruptions, for example in shifting demand or in the Value Chain.

In this article, I am mostly talking about carrying out major Transformation (*versus small incremental change or improvement*).

When we are no longer able to change a situation, we are challenged to change ourselves.

——-Victor Frankl

2. Balancing the priorities: a first critical decision for the Leader

One of the main challenges for a Leader is that although the Business Model Transformation might be very high on the agenda ... it is **never a unique project or priority** for the Manager. There is always a core business to run, customers to serve with the existing model (*even if some signals are showing the limits of this model*), and a P&L to optimize.

But **right from the start** of the Transformation project, the Management Team should answer very clearly the following question: **WHY do we do it?**

If the answer is not clear yet, my advice would be to take more time to discuss it and avoid taking short cuts.

There are multiple situations and reasons why a Strategic Transformation is necessary:

- Is the Core business very profitable ... but with many weak signals that the current business model reaches its limit? This might sound like a comfortable situation ... but the paradox is that it might be a very difficult context to manage change. The sense of urgency is typically not there and many company managers will be very reluctant to risk impacting negatively the cash cow. Some “old beliefs” are so strongly rooted in its DNA that the Company can become a “prisoner” of its own history and success.
- On the contrary is the core business collapsing (*for example as a consequence of a major disruption such as Covid-19*) and the Transformation a matter of survival? A crisis situation with an obvious sense of urgency, but typically putting a very strong pressure on the available resources to carry out the turnaround (*human, financial and timewise ... time being considered as a scarce resource in such a situation*).

Setting clear and explicit priorities is however never an easy exercise, and can be in itself the result of a specific internal process. It requires to have a reasonably good understanding of the Company’s “ecosystem” and its dynamics. It requires a shared analysis among the Management Team, and accepting the underlying risks and opportunities.

Prioritizing means renouncing (*what is really critical, what would be only “nice to do, and what we can stop doing*). Not doing it would end-up with a too long list of “priorities with no clear ranking”, overloading the available resources and leading to very little and slow progress.

It often requires to go back to the facts, listen in an unbiased way to the weak signals from the market, and carry further research if necessary. In many cases an external consultant can also help to bring a new or different perspective ... and act like a “mirror”.

3. Two Different Processes ... and teams

Running an existing Business Model and Transforming the Business Model are essentially two very different processes:

- The **Current Business Model Operation** is based on mostly known external factors ... and ultimately a quite well defined “end-goal” (*with metrics that the Company might have been using for many years*). Companies are trying to optimize the operation, aiming at better serving the customers and more profitability.
- **Business Model Transformation** typically requires first to redefine the “end-goal”. It is often not about planning a path from A (*today*) to B (*tomorrow*). It is about learning and experimenting. **It is about failing many times before finding the right path ...**

Operations still have to be run on a continuous basis, but transformation has to be carried-out as a project ... with a Beginning and an End.

The scope of the Transformation project can be variable, including or not the deployment. There can be specific cases, but in general, my advice is to set two separate projects :

- A **Transformation Project** that focuses ONLY on re-inventing a Business Model, being as creative and innovative as possible ... and not having to consider any constraints coming from the current model. It is important in my opinion to open the perspectives here as much as possible and not to set too many boundaries.
- The **Deployment** can be done in different ways ... depending on the chosen scenario: transforming the current operations, setting-up a new division ... or even a new Company!

It is also often the case that the competences needed for these two steps are not the same. Of course, continuity is important and several key members of the Transformation project will need to be involved in Deployment phase ... but the team composition can be different.

The **scope** being defined only as “re-inventing the Business Model”, then the main deliverables will be:

- ✓ A full description of the Business Model, with a 3 to 5 years Business Plan
- ✓ An actual working (*and tested*) solution
- ✓ “Proof-points” (*right to win*) defined as the results (KPIs) of the trials. These trials are typically carried out in a small scale, but these achievements need to demonstrate (*without ambiguity*) the capability of the model
- ✓ A risk analysis
- ✓ And recommendations for the next phase (large scale deployment)

4. Focus on Transformation: re-inventing the Business Model

As a mindset, I would recommend the Project team to **run the project as a start-up!**

The project is not only a “PowerPoint exercise”, but has actually to **deliver real products and solutions**. These solutions will be experimented and tested on a **small** scale. And even though the limited scale might not make it profitable, the project must have its own P&L’s and business objectives.

It is a **learning process** that will require a lot of **trials, experiments and testing**. Several of these trials might fail ... and the project will be a success when the achieved KPIs will prove the potential of the Business Model (*and confirm that it is a winning strategy*).

A start-up is often a pioneer ... it is often about trying to do new things that the Company has never done before. Don’t look at the constraints first but think out the box, be innovative and be bold.

Never say never because limits, like fears, are often just an illusion.

—Michael Jordan

Like in a new Company, the team will be required to build strategies and solutions. It requires to be at the same time thorough in strategic analysis and fast in development. **TIME is indeed often a critical factor and a scarce resource** for many Companies.

There is therefore in my opinion not a single methodology ... but a mix of different approaches that the project team will have to master. Some project phase will require more Strategic Thinking in particular in the upstream phases. And Development phases might follow Agile Principles, more adapted to manage uncertainty and speed in small scale trials.

Each project will have to be approached differently, but as an example, the project can be run in three main phases:

1. Defining the main scenario to be tested. In some cases, it can be given as an input to the project ... but I would recommend NOT to take short-cuts in this strategic phase. It is really an opportunity to ask the right questions ... and ensure that this phase will lead to the selection of the best options (*2 or 3 main scenarios can be selected*).
2. Trial phase where each scenario will be tested and experimented. This is typically not only one trial ... but rather a series of iterations.
3. Consolidation of the “proven” business model, including risk analysis, and recommendations for deployment (*next phase*).



The **first Strategic phase** can start from a mapping of the current Business Model (*which in itself might not be an easy exercise if it had not been formalized already*), and the team can ask themselves different questions:

- If we were starting the Business from scratch today ... would we do it differently? Why and How?
- Are we transforming faster than the market ?
- How resilient is our model ?



In the **second phase**, each scenario will be tested through experiments that will have to be carefully designed:

- Typically, in a small scale (*small geographical area, or selected distributor, or selected Group of customers*)
- With a defined time frame (*time will often be considered as a scarce resource but experiment need to run long enough to acquire enough knowledge and learning*)
- And series of short cycle iterations
- In a “fail safe” way for the Company (*avoiding any potential negative impact on the core business*)
- Tracked and Monitored in direct contact with consumers as much as possible (*maximizing the learning and shortening the learning cycles*)



It is important that **each experiment has crystal clear objectives** in itself:

- What exactly do we want to test and learn at each step? It can be for example the impact of a specific feature on consumer purchase behavior; or running comparative trials with different variables.
- The KPIs need to be very clear:
 - What is the desired target? Reaching this level would be a clear success ... pushing for acceleration
 - What is the “minimum threshold”? Below this level, the team should consider abandoning this idea and moving to another one. It is always a difficult decision for the team to kill an idea ... but there is a clear risk to waste energy, resources and time on a wrong idea. Killing poor scenario must be fast and therefore must be based on clear metrics.

The **last phase** will be to consolidate all this learning and “close the loop “with some strategic analysis again:

- What are the main risks? What could go wrong? Is there any possible way to manage these potential impacts?
- On the contrary, are there potential upsides? How to maximize them?
- Points of attention and recommendations for the deployment?

5.Focus on transformation: Deployment

The previous phase was leading to a new and innovative new business model to be deployed.

Depending on how “disruptive” is this scenario (*versus the core business*), its scale and risk level ... there can be several options for deployment:

- Integration in the Main operation stream?
- Setting-up a separate department / division?
- Or even setting-up a new Company?

If the new model is integrated with the core operations (*typically if there are strong synergies*), many new constraints will be coming in place: impact on human resources, shifting the customers to the new model, and so on ...

This will be a **Change Management Project**, which in some cases, can be the most difficult phase of the project.

When deployed through the organization, **Transformation can require even more unlearning than learning!** Simplifying and streamlining can be harder than starting something new !

The high confidence that it is a winning strategy, acquired through the previous steps, will however provide a strong and clear direction. The Deployment phase might require to make some compromises with the targeted “ideal” model ... which is certainly fine if it increases significantly the overall chances of success of the execution.

In my opinion, it can be more effective to partly reshuffle the Project Team for this phase (*but only partly as continuity needs to be ensured*).

6. Key Success Factors

I would like to emphasize here three major factors

a. Strong Management Support and Leadership

Transformation project can be disruptive, and the Management needs to be very involved at every step.

I have seen situations where the Management was expressing the need for transformation ... but putting so much control at different levels that in practice it was killing all initiative. The need for change cannot be only a rhetoric but a real call for action.

The Management needs to “beat the drum” and put pressure on the Transformation projects. These projects will indeed require a lot of Management energy, confidence and focus.

b. Company culture and processes

The Company culture can be a booster ... or a brake for the Transformation.

“Bottom Up Organizations”, cultures encouraging initiative and cooperation will represent a highly favorable ground ... but on the contrary excessive “internal politics”, “top down organizations”, complex or unclear decision-making processes will all be negative factors.

Management being aware of these issues, they will need to maximize the changes of success.

Obviously, the Company will not change its internal process (nor culture) for the transformation project but can decide to isolate it from the main core processes in order to create a favourable environment.

c. Project Resources

Transformation projects are strategic, and a poor outcome can cost the Company much more than the actual investment in the project itself.

i. People

Big Companies can have the capacity to set dedicated teams for transformation projects, with teams free from any operational responsibility. For many small and medium Companies, this is however a luxury ... and some key staff or talent might often be required to share their time. The key questions are however similar:

- Team composition: need to have the right competences, and a strong diversity (*in terms of age, background, skills*)
- Selection of the Team leader: often a talent. If no clear candidate internally, the Company can also rely on external temporary resource.
- Clear empowerment
- Strong incentives for the team

Besides the team itself, a specific “Project Steering Committee” might also be set-up in order to ensure a fast and efficient decision-making process, with a member of this Steering Committee acting as a “project sponsor”.

ii. Money

The other important dimension is of course the Funding of the project. On purpose I did not start with it, as in my experience the HR side is often a more important bottleneck than money itself.

The Transformation project has its own P&L. The break-even might however happen only after a few years, and the Company must be ready to support and fund this project until then.

As we are here in a “pioneering mode”, it can be hard to set a precise budget or target at the beginning of the project. Typically, a budget envelope can be defined based on “macro scenario” and the investment decision can be done step by step ... at each phase of the project.

The team can then be very clear about the resources that can be allocated to them for every step: research, trials and experiments, analysis, and so on ...

For larger scale projects, this funding will often also have to come partly from additional efficiencies in the Core Business ... as the Company might not be able to fund new project entirely with separate budgets. **Transforming is not only about doing new things ... but also about taking the risk to stop doing things!** And it is often a difficult decision, but necessary to free some resources, time and energy.

d. Communication

Every Leader is aware of the “change curve” and its challenges. It is obvious that any transformation will meet some resistance (*active or passive*), and the Company objective is to go as quickly as possible through the downside of the change curve.

Communication will play a great role, and it starts from the beginning of the project. The internal communication plan is a balance between the need to create a strong sense of purpose as widely as possible internally ... but also to manage a necessary level of confidentiality (*in particular at earlier stages*). It often requires to be validated by the Steering Committee.

People don't resist change. They resist being changed!

—Peter Senge

External communication can also be important. The experiments and trials that will be carried out will also have some visibility (*even if it is done on a small scale*) in the market.

- Do we want to have any communication to the market? Would it create uncertainty or reassurance and added-value?
- In case some trials are generating questions from customers, distributors or partners ... do the operation team know how to answer? This is in my opinion an important point to manage.

7.A never-ending story ...

Transformation should not be a “one shot” exercise. As Andrew Grove claims “*Only the paranoid survive*” ... and keeping reinventing the Business Model is a never-ending story!

The Covid-19 crisis has definitely disrupted the world we live in ... and other disruptions might follow (*Environmental? technological? Social? Political?*) bringing new challenges and opportunities.

When time is a scarce resource, **Quality of leadership** is critical. When the traditional lines between Strategy and Execution are becoming very fuzzy, **Experience and Agility** are becoming clear advantages in this race against time.



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