

Nimbus Ninety report

Digital Leaders Insight Series

Digital business model reinvention

March 2016



Nimbus Ninety

www.nimbusninety.com

“...the trusted market
voice...digital business
trends.”

About Nimbus Ninety

As the independent research community for disruptive business and technology leaders, we are the trusted market voice on the impact and implications of evolving digital business trends.

Our community is made up of the broad range of senior stakeholders responsible for driving digital transformation initiatives across business and technology functions. For over ten years, our insightful, member-led reports and thought leadership activities have helped members stay abreast of the latest disruptive trends and define their digital and strategic agendas.

series has been designed to provide useful market insights, opinion and executive reflection on the impact and implications of evolving digital trends.

To find out more about our thought leadership activities, including summits, dinners and masterclasses visit www.nimbusninety.com

The *digital business model reinvention* report is the first in our new Digital Leaders Insight series. This



Emma Taylor

Founder and Managing Director

Introduction

Welcome to our Digital Leaders Insight series which opens with our inaugural report on *digital business model reinvention*.

The Digital Leaders Insight series represents the latest phase in our proud legacy over the last 10 years of independent research into the impact and implications of digital trends and technologies.

I don't need to tell you that we live in a chaotic, fast moving, hyperconnected world; you're already living and breathing it. Nor that only the most forward-thinking, nimble-footed businesses are likely to survive these unprecedented challenges. But that's where we come in. Nimbus Ninety exists precisely because the world is changing so fast.

We are passionate about helping our members, all of whom are disruptive business and technology leaders, to drive their digital businesses into a successful and rewarding future.

This report is just the beginning of a thought leadership series that will guide, inform and inspire you to meet the challenges of the digital age. Look out for the next thought provoking instalment.

I trust you will find this useful and look forward to your thoughts and feedback.

Best regards,
Emma

Overview and guiding principles

The phenomenon of digital disruption and its transformative impact on the competitive landscape and established brands has gripped the media in the past few years.

Revolutionary new entrants such as Uber, Apple and Netflix have burst onto the scene, seemingly out of nowhere, seizing market share and tearing apart industry rules and norms by establishing radical and disruptive new business models.

The extent of the wider impact of companies like Uber on the status quo is perhaps best exemplified by the addition of new descriptive

words to our business lexicon such as 'uberisation' and 'nestify', words now routinely applied when wanting to signify dramatic change.

A current popular narrative in the business and tech press alike is the need for more established organisations to emulate this radical approach to business model change, and that the most effective response to digital disruption is in fact business model reinvention.

The aim behind the *digital business model reinvention* survey was to gauge whether Nimbus Ninety members agreed or disagreed with this view, and to measure the extent to which members felt they would need to modify their business models in response to digital disruption. In addition, the survey set out to measure how important business model change was perceived to be for achieving growth and competitive advantage.

So what do we mean by the term business model? For the purpose of this report, we are defining it to mean the way an organisation creates and delivers value to customers. Business model innovation differs from more traditional product innovation

because it focuses on developing a new customer value proposition.

To start with, we asked members to select the word that best described how they needed to modify their business models in response to digital disruption. The five choices were, *reinvent, remodel, evolve, innovate and transform*. We then wanted to clarify how important this choice was to enabling future growth and competitive advantage.

In our third question, members were asked how important digital technologies were to enabling that growth and competitive advantage. We then asked them to select the top three business model areas they were focusing on for growth and competitive advantage. Finally, we asked what they felt were the main obstacles preventing them from enabling business model change.

Survey demographic

163 senior stakeholders,
responsible for driving digital
transformation initiatives across
business and technology functions

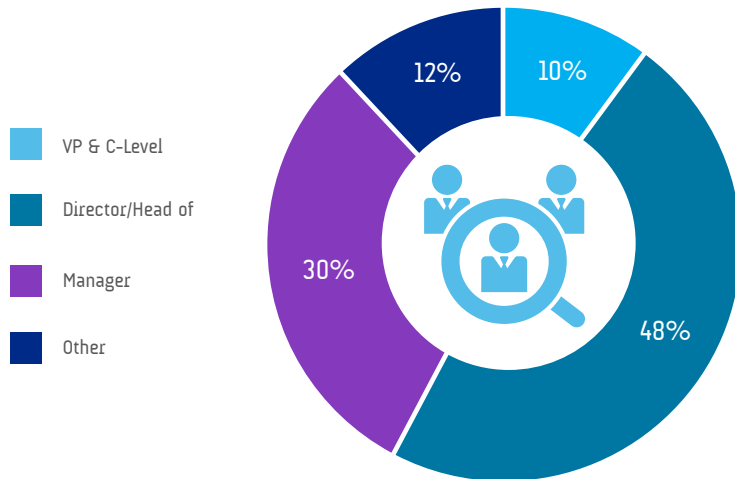


Figure 1 - Demographic: Survey respondents job roles

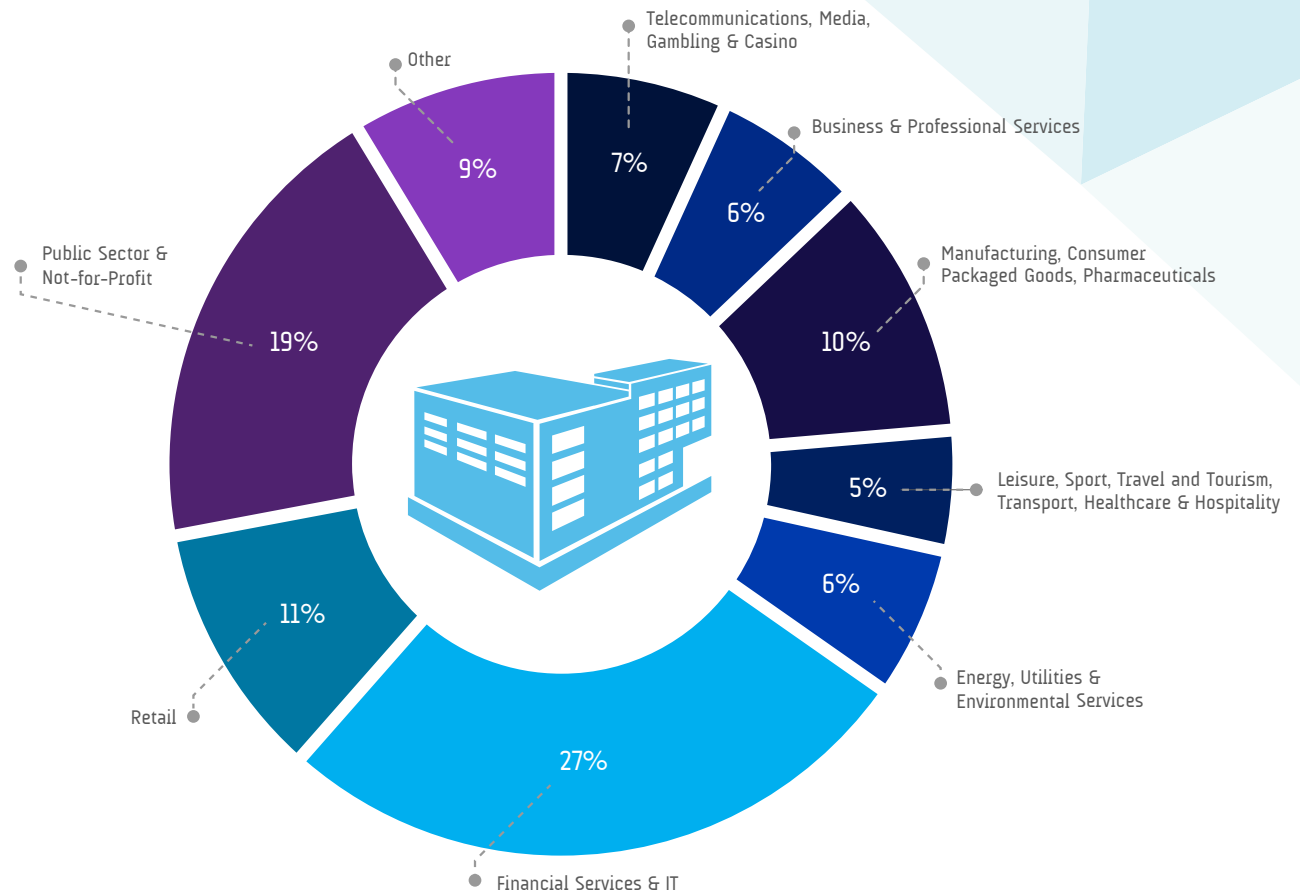


Figure 2 - Demographic: Survey respondents industry sectors

76% rated some form of business model change as a high priority for achieving growth and competitive advantage.

Executive Summary & Analysis

An extremely positive conclusion that can be drawn from the survey results is that all respondents fully understand the need to carry out some degree of change to their business models in response to digital disruption.

This indicates that Nimbus Ninety members are well informed of both the threats and opportunities of digital disruption. In fact, 76% rated some form of business model change as a high priority for achieving growth and competitive advantage.

There was however some variation among respondents on the extent of the business model change required (*See figure 3*). Only a minority, 5%, agreed with a need for business model reinvention, the most radical or revolutionary option that was offered on the questionnaire. The majority, 33% of those surveyed, selected the term *evolve* to describe what they felt to be the best approach to business model change in their organisation. Out of the choices offered, *evolve* would certainly be the most conservative approach, implying a desire for a more gradual change. And of those who selected *evolve*, 35% of those responses came from members classifying their industry sector as financial services, a sector well known for being more conservative and risk averse.

This raises a number of important questions to consider about whether it is in fact necessary, or even desirable, to tear down your current model to uncover business value? Looking at the results, our members would certainly say that it's not. So given the hype that's promoting this radical approach, why might our members be more reticent than revolutionary?

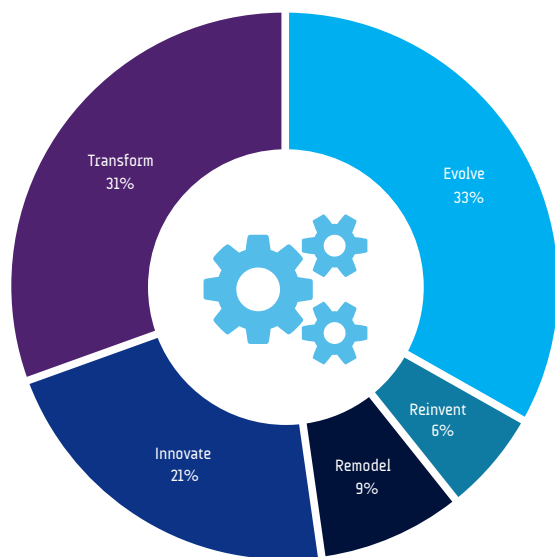


Figure 3 - Question 1: Which word best describes how you will need to modify your business model in response to digital disruption?

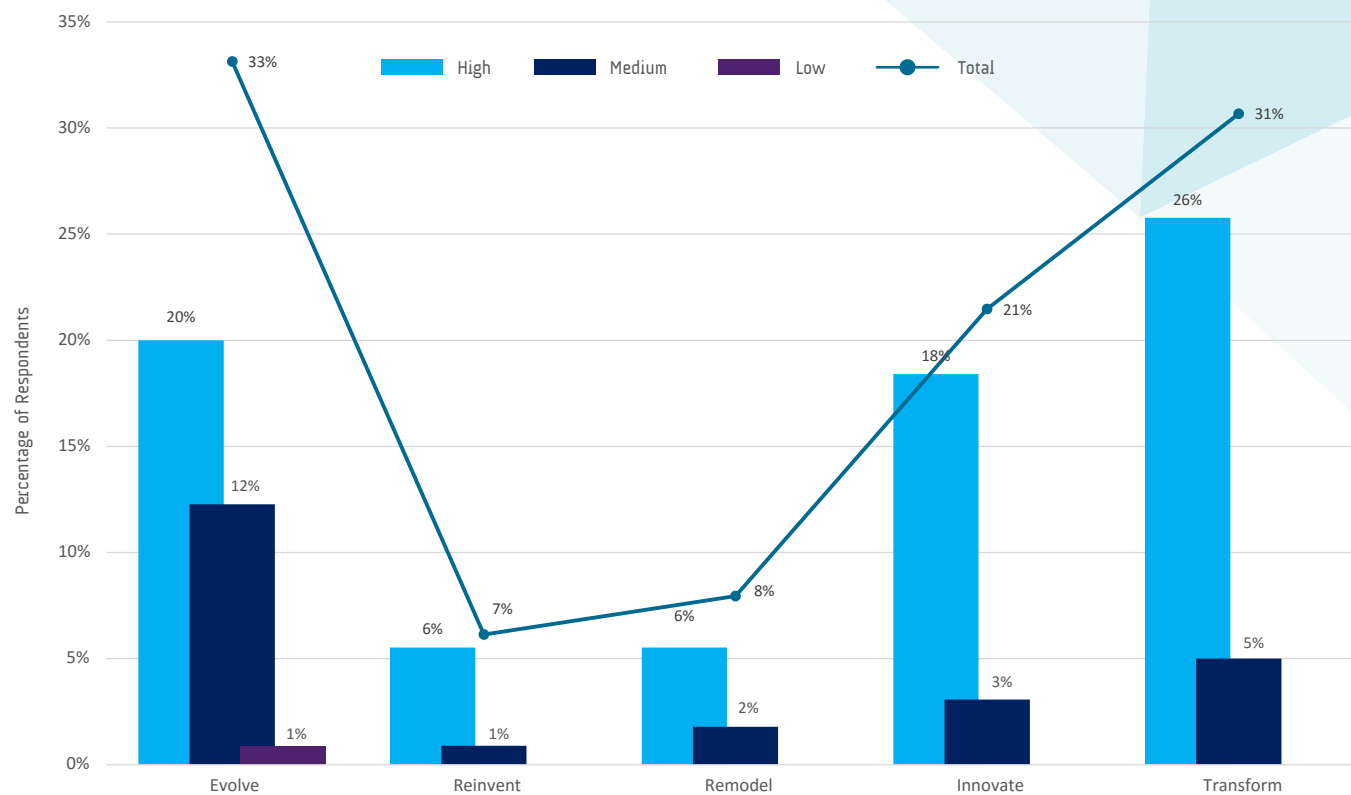


Figure 4 - Question 2: How important is this for future growth and competitive advantage?

.....

“...85% of respondents viewed technology as a high priority”

.....

The simple answer is that business model reinvention is scary.

The operating environment facing executives is already complex, competitive and fast moving. Making any change carries risks and many executives will be asking themselves: does our organisation have the capabilities and culture that would enable us to capitalise on a more radical approach? And of course the narrative of seemingly overnight success stories like Airbnb doesn't actually ring true on closer examination (it actually took 8 years for Airbnb to become pervasive).

Risk-taking is an important characteristic of success in the start-up world. Much has been written about the connection between having a risk-taking culture and the ability to successfully innovate. Whether an *evolving* approach to business model change will be enough to protect organisations from the onslaught of digital disruption remains to be seen.

Question 3 (Figure 5) asked members to rate the importance of technology as an enabler of growth and competitive advantage. 85% of respondents

viewed *technology as a high priority*. A recent study by Accenture and Oxford Economics (Digital Density Index, 2015) stated that digital technologies could add \$1.36 trillion to total global economic output by 2020, and it would appear that our members have their eye on a portion of this increased wealth. Digitally driven business models, the pervasive use of cloud, big data analytics and new IoT based innovations will be key enablers of this growth in the next five years. It's no surprise that the group who selected *innovate* to describe their approach to business model change, rated the role of technology highest at 94%.

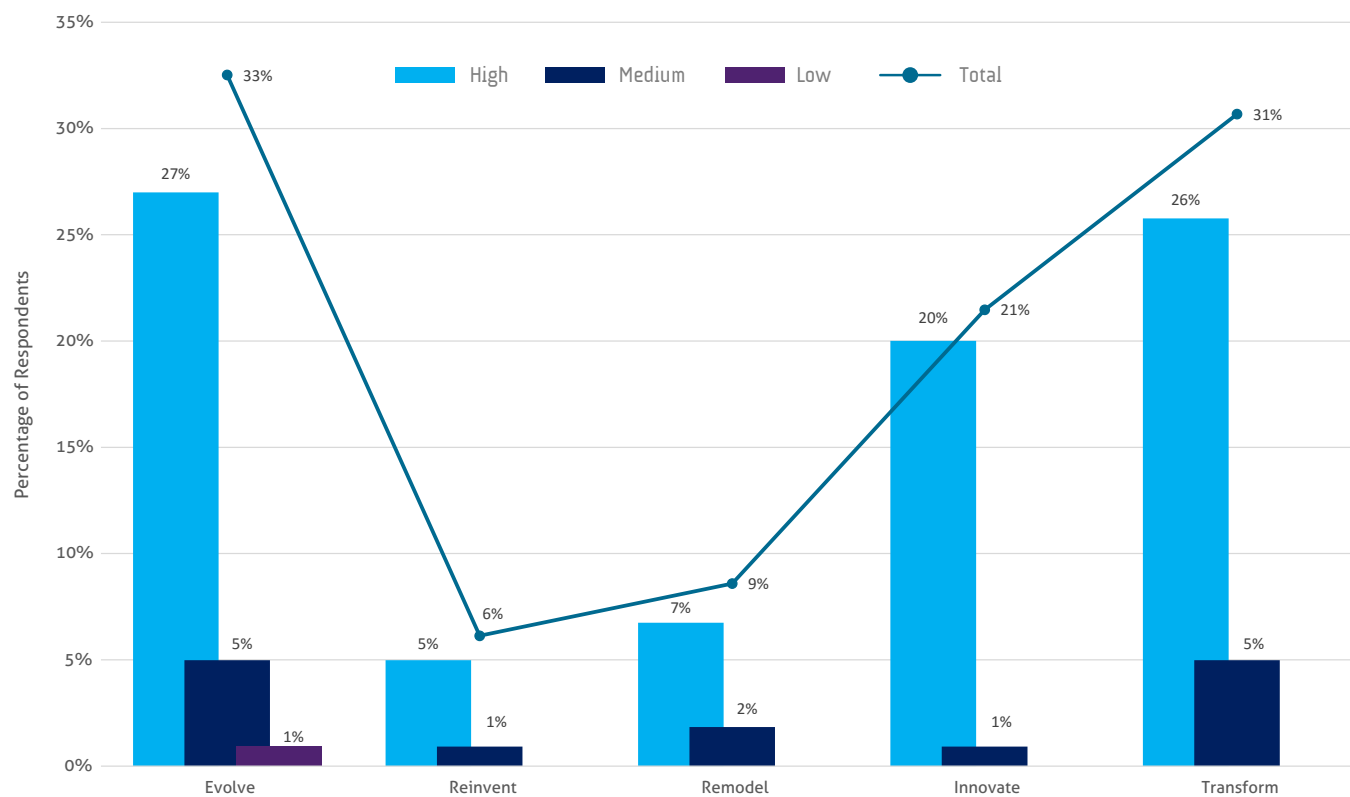


Figure 5 - Question 3: Based on your answer to question one, how important are digital technologies in enabling this?

The resounding message from the responses to question 4 (Figure 6), is that the vast majority, **63%**, believe that their customers need to be positioned at the heart of their strategies.

Customer experience was by far the highest response to this question and indeed the top choice across all but one business model classification category, where it was equal first. This is extremely positive news as experts have long associated successful outcomes with companies that focus on creating engaging

customer experiences. The term customer experience refers to how customers perceive their relationship with your brand in response to their interactions with you, and these interactions are deeply rooted in the business model. Customer centric organisations must strive to leverage positive customer experiences to maximise customer loyalty and brand advocacy.

Mastering omni-channel and collecting and analysing customer data to improve targeting and engagement are likely to be key strategies for members striving to enable this. Business model innovation is, at its heart, all about using digital technologies to create a new relationship with the customer and focusing on the new customer value proposition will be paramount to success.

Customer relationships, seen by experts as one of the most highly effective approaches to creating brand loyalty, was the second most popular choice, **47%**, for business model change. Interestingly, this is the primary business model focus for brands such as Apple who have succeeded in creating incredibly deep relationships with their customers, many of whom claim to 'love' their devices and view the brand as a lifestyle choice.

To add a note of caution, enabling this level of customer centricity will require both substantial cultural and organisational change to achieve.

The third most popular choice, **45%**, was *product offering*. Product-centred innovation has been the main strategy for growth and competitive advantage for businesses since the Industrial Revolution, whether developing new products or improving existing ones. Breakthroughs in technology have always driven product innovation but this can be a poisoned chalice because technology can be easily replicated or the latest version quickly overtaken by newer iterations. History tells us that less than **0.5%** of new product innovations that launch are profitable. Organisations will need to optimise every stage of the innovation process to make sure they are part of that 0.5%.

“Business model innovation is, at its heart, all about using digital technologies to create a new relationship with the customer...”

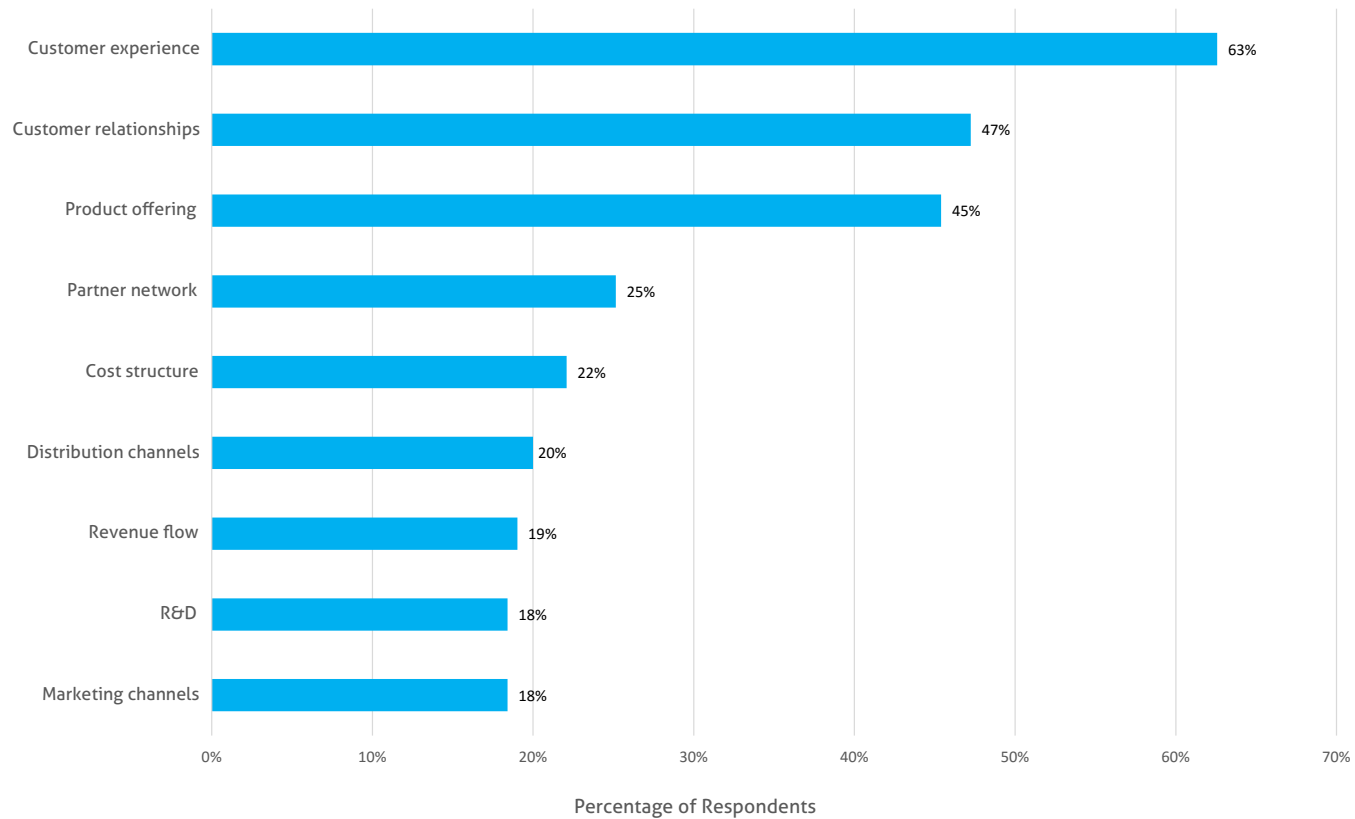


Figure 6 - Question 4: Based on your answer to question one, which three business model areas are you focusing on for growth and competitive advantage?

“In fact, APIs are already transforming business models all around us, and this revolutionary impact is reflected in the way experts often refer to the existence of an API economy.”

Our final question (Figure 7) invited members to share what they felt were the top three obstacles preventing them from transforming their business model. The top response (44%), echoing the results of the Nimbus Ninety digital benchmarking survey released in May 2015, was *legacy systems*.

The term legacy refers to the outmoded operating systems, platforms and infrastructure that are the norm in many older, more established organisations. Legacy systems can struggle to cope with the sheer volumes of data that are produced in the digital age, and because of data integration challenges, organisations may find it more difficult to uncover business value from their data.

Many organisations are harnessing APIs (Application Programme Interfaces) to help generate growth by enabling them to open up their data and services to internal and external sources and, as such, create windows to new and exciting ecosystems. In fact, APIs are already transforming business models all around us and this revolutionary impact is reflected in the way that experts often now refer to the existence of an API economy.

Equal second highest rated obstacle (40%) was that of having a *risk averse culture*. The concept of corporate risk-taking and the so called start-up mindset, where failure is actually encouraged, has really captured the imagination of the media, and with good reason. New studies are showing that organisations who have evolved to adopt a more entrepreneurial culture are beginning to drive corporate reinvention and this is manifested in a variety of forms, from innovation days and hackathons to partnerships and acquisitions of start-ups. As referred to earlier, taking risks is scary but without a change in mindset and culture, it's hard to see how organisations will succeed in delivering the growth and competitive advantage they aspire to.

Unsurprisingly, organisational structure, joint second with risk averse culture at 40%, and agility, just behind at 34%, were popular choices and of course these two concepts are closely linked. Traditional businesses, many of which rose to prominence in the 20th century, tended to be built with a command-and-control organisational structure, designed to contain and regulate risk and uncertainty. Information was locked away in silos and innovation, if

it happened at all, took place behind closed doors in IT or R&D departments. But in the fast moving, hypercompetitive digital world of today, these bureaucratic organisations will struggle to adapt quickly enough to compete with agile new entrants. By contrast, start-ups often have a more creative and experimental culture with a flat organisational hierarchy and, in this agile environment, ideas are more easily generated and become working prototypes more rapidly.

Interestingly, ranking high for nearly 30% of respondents was *governance, risk and compliance*. Digital disruption has transformed data into what is often described as 'the new oil', but in doing so has unleashed complex management, security and compliance challenges.

These challenges will of course be more pertinent in particular sectors where data is more sensitive, such as customer and financial information or where there is increased regulation around data privacy. Developing policies and procedures that balance security and compliance with the desired open culture will be a priority.

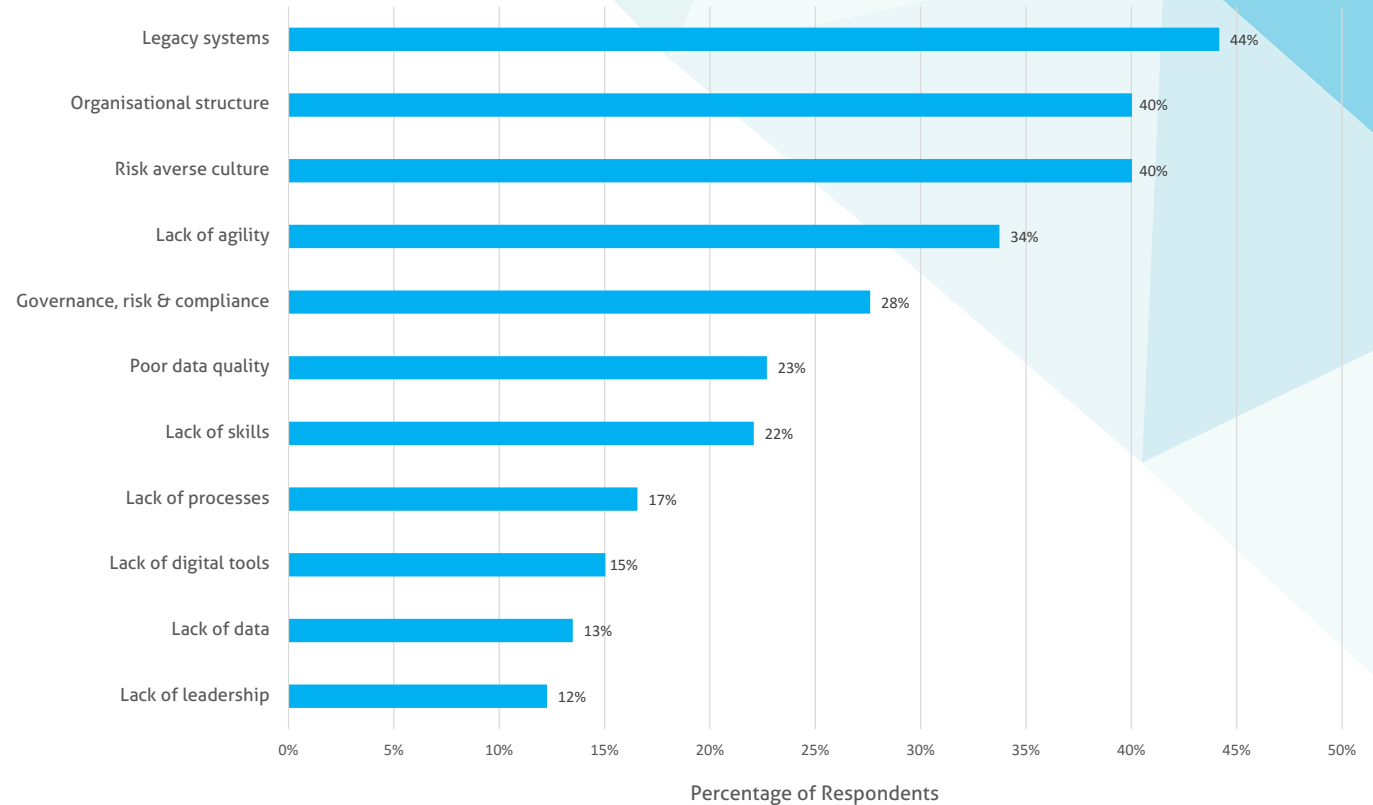


Figure 7 - Question 5: What are the top three obstacles preventing you from transforming your business model?

“...without a change in mindset and culture, it’s hard to see how organisations will succeed in delivering...growth and competitive advantage...”

.....
“...what we have seen is
a more measured and
considered approach to
business model change...”
.....

Conclusion

Until only a decade or so ago, commercial organisations tended to stick with a particular business model that wouldn't change much, if at all, over time. To say that the world has moved on in the past 10 years would be something of an understatement.

Market volatility makes it almost impossible to plan more than a year ahead at any time, thus rendering the concept of long-term static business planning obsolete. The rapid emergence and ever-changing nature of disruptive technologies make it difficult to stay on top of what's new, much less stay ahead. And new market entrants, powered by these game-changing technologies and fuelled by a nimble start-up culture and mind-set, threaten the very existence of established incumbents.

Of course, transforming your business model is not without risks, but it's clear from our results that the majority of members agree that some form of change is now a necessary evil, with **76%** of those surveyed rating it as a high priority for achieving growth and competitive advantage.

There's no doubt that the decision to reinvent or evolve is a major dilemma facing senior executives as they consider how to meet the challenges of the digitally disruptive age. Our results have revealed that, contrary to the popular narrative in the media, our members are not resorting to radical business model reinvention strategies in response to the threat of digital disruption. Instead what we have seen is a more measured and considered approach to business model change with **33%** of respondents choosing 'evolve' to describe their approach.

We are most grateful to all of our members who took part in this valuable research. As the independent research community for disruptive business and technology leaders, we are very fortunate to be able to call upon the thoughts and opinions of our highly esteemed members. And it's this unique relationship that enables us to continue to be a trusted market voice on the impact and implications of evolving digital trends.

Author

Caroline Boyd
Director of Research and Strategy
caroline.boyd@nimbusninetly.com

Creative and design

Jordan Constantinides
Head of Creative
jordan@nimbusninetly.com

Membership team

membership@nimbusninetly.com
0203 598 2237 - Ext. 1

Sponsorship team

sponsorship@nimbusninetly.com
0203 598 2237 - Ext. 2

Registered company and publisher name

Nimbus Ninety Ltd

Registration number

06803745, registered in England & Wales

Office address

17 Grosvenor Gardens,
London, SW1W 0BD

Registered address

229 Hyde End Road,
Spencers Wood, Reading,
Berkshire, RG7 1BU

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