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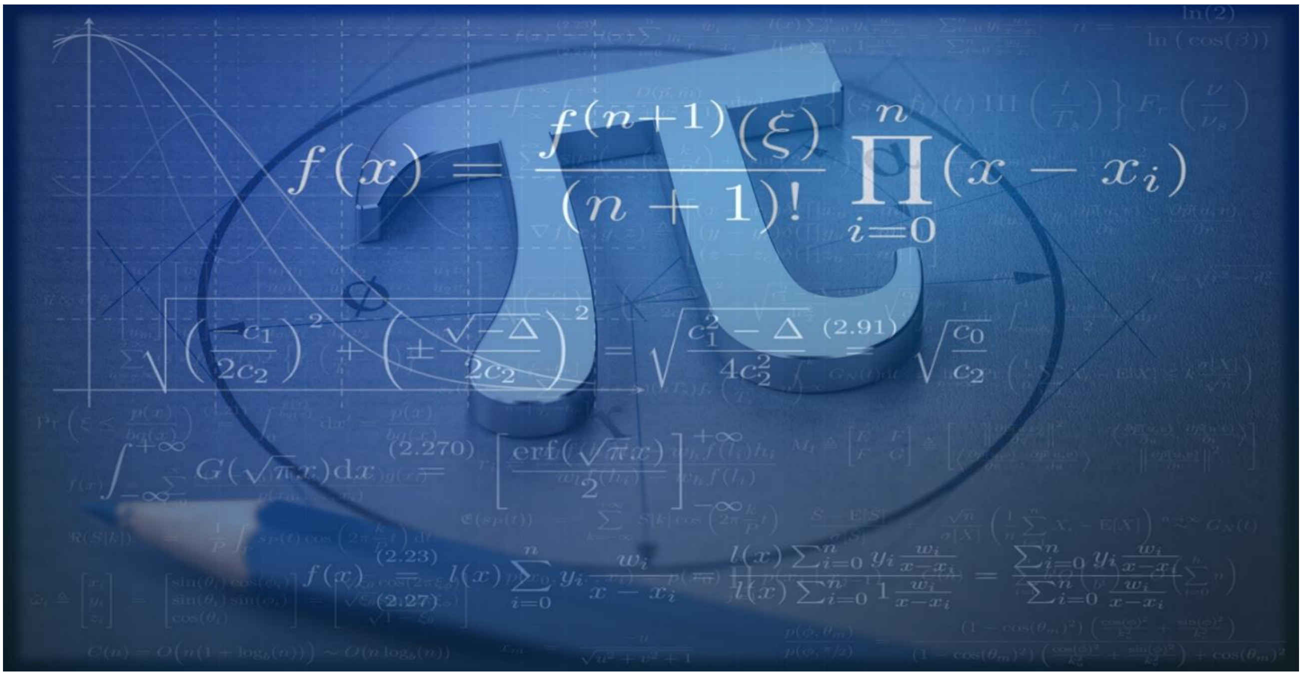
On Business Model Strategy

THE TEN COMMANDMENTS OF YOUR BUSINESS MODEL



OR TEN QUESTIONS TO MASTER YOUR BUSINESS MODEL STRATEGY

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October 2022. During these first 22% of the twenty-first century, we have seen at least three major shifts in strategy. Firstly, we have shifted from an exclusive shareholder value focus to a purpose-driven era and a holistic stakeholder value perspective where the world and the next generations are considered our most important stakeholders. Secondly, we have shifted from a mere competition on products and services to an extended competition on business model which has become both a framework of strategic thinking and the primary vehicle of strategic implementation for corporations. Thirdly, the business world has shifted from an articulation around closed vertical industries driven by the scientific organization of labor to an increasingly less clearly articulated set of open horizontal business ecosystems driven by commonality of purposes and value propositions across industries and companies.

Hence, in this triple paradigm shifts, owning and mastering one's business model is not an option. It is a strategic imperative —not to say a make-or-break— for CEOs and C-Suite executives.

Below, we share what we see as the ten quintessential questions CEOs and Executive Leadership Teams need to answer to be at the top of their business model strategy game.

① Is your value proposition aligned with the strategic purpose of your firm?

At a time when customers aspire to consume meaning beyond merely products and services, it is paramount for firms to walk the talk when it comes to putting their higher purpose at the core of their strategies and business model, and this starts with their value proposition.

In my article *"The Strategic Purpose of the Firm"*, I defined the strategic purpose as the synthesis between the firm's strategic ambitions and societal aspirations i.e., its higher purpose as an industrial player, a market-driven organization, an economic agent, and a corporate citizen.

So, does your value proposition balance the strategic and societal equation of the legacy you aspire to leave to the world?

② Do you leverage the synergies among the various elements of your value proposition?

While preparing for a meeting with the CEO of a leading industrial niche player delivering highly technical products and services to clients in industries such as chemicals, cement, metals & mining, or steel, I realized that the company's four business lines served 9 industries with a 48-strong products portfolio. Considering the cross-industry similarities of some clients and the technical proximity in terms of delivery, it did not take long before highlighting the potential for capabilities- and client service-based synergies in terms of value proposition delivery... and their potentially non-negligible impact on the bottom-line.

Such synergistic actions are even more crucial when the strategic context of the firm changes as it does when firms engage in growth strategy. Indeed, growth strategy expands the dimensions of a firm's business model, either by stretching its current dimensions or by adding new ones. But such an expansion may lead to a two-fold value proposition complexity. First, internally, it may increase the delivery complexity according to the degree of relatedness of skills and capabilities required to produce and deliver the products and services. Second, externally, it may lead to a readability issue in the customers' eyes if the extended or new value proposition is confusing, for instance, if a poorly mastered innovation strategy leads to the coexistence of multiple marginally differentiated products.

③ DO YOU PROVIDE YOUR CLIENTS WITH THE HIGHEST FUNCTIONAL, EMOTIONAL, EXPERIENTIAL, AND SOCIETAL VALUE?

When it comes to customer value, the underlying question is "Are you aware of the different types of value creation you need to outsmart your competitors and to be "outloved" by your customers?"

On a personal note, my favorite smartphone functionality is the photography functionality. Don't take my word for it, just look at the sunset and sunrise pictures of my LinkedIn strategic posts. More broadly speaking, today, virtually no one bases one's mobile phone purchase decision exclusively on the core phone functionality. So, what is the strategic implication of this? ***Firms need to master both the core and extended functional value of their offering to succeed.***

I am passionate by luxury watches... and, as a matter of fact, I am not alone. But at the ultra-high-end spectrum of that market, what —other than passion and emotion— could lead an *afficionado* to spend —or emotionally invest— EUR 180,000 (or more) on a timepiece when you can read the time on your smartphone, the dashboard of your car, your laptop,... or when realizing that you may not need the "high complication" of a 1/36,000th second precision timepiece to start your Executive Committee meeting on time. ***So, at your level, do you provide your clients with an emotional value beyond the core of your products?***

Today, the transformation of the financial services competitive landscape from its initial distinctive verticals of financial pure players to an open, global, and horizontal ecosystem including fintech, telecom, retail, and open banking infrastructure companies in a multi-platforms *"Rise of the Digital"* context has forced a complete rethink of the financial customer experience. ***So, when looking at your capabilities in the mirror, can you claim the superiority of your firm's experiential value to your customers?***

Finally, ***what overarching societal value do you create for your customers, including your ultimate customer aka "The World"?*** This type of value creation directly relates to the alignment of your business model with your firm's strategic purpose as well as to your firm's capacity to attract customers identifying themselves with that strategic purpose.

Yesterday, customers voted with their wallet. Today, they also vote with their **heart, mind, and soul**.

④ DO YOU HAVE A CLEARLY DEFINED MARKET/CLIENT SEGMENTATION?

This question may look as basic as seeing Usain Bolt sprinting through an open door, but no question is too basic when it comes to the business fundamentals: ***Are you crystal clear about whom you (aspire to) serve... as well as whom you do not want to serve?***

⑤ What is the quality of your client relationships and how loyal are your clients?

Asked differently: ***Are you client relationships of such a high quality that it converts them into unconditional, lifelong ambassadors of your brand?***

Among all the metrics one might analyze to reflect on this dimension of your business model, your customer feedback culture might be key to successively convert customer unsatisfaction into customer satisfaction into customer love and loyalty. In this context, does your firm value —and act upon— customer feedback? Alternatively, is your firm rather defensive or, worse, dismissive to the point of being considered arrogant by your customers?

⑥ How do you engage with your clients through their lifecycle?

In the beginning of the years 2000s, I met the representative of a highly respected luxury watches brand at the *Brussels Fair of Prestige & Elegance* featuring 70+ luxury brands across all industries. My eyes got caught on two masterpieces of elegance. The representative spontaneously came to me and asked me whether I had questions. Obviously, I had. It was my first time in a luxury watches boutique. The representative not only answered my (basic) questions but he also passionately explained to me the respective 6- and 9-month manufacture processes of the timepieces, the engineering prowess it was to translate time into those exceptional objects, and then the discussion extended to the origins of the brand and the distinctiveness of its patented complications movements.

It would be an understatement to say that there was no clue I would buy those two timepieces, but the representative engaged in the conversation with me as if I was about to buy the whole collection of models. That 30-minute discussion turned me into a passionate lover of the brand which I have been following since then. That discussion turned me into a passionate lover of the realm of luxury watches in general. That discussion turned me into a potential customer.

Strategically speaking, that discussion asks CEOs, Chief Marketing Officers, and Brand Strategists an existential question in terms of client engagement —and in terms of articulation of their business model: ***To what extent do you engage with your client during <u>and beyond</u> the transaction, before (in client acquisition mode) and after (in client follow-up mode)?***

⑦ WHAT IS THE QUALITY OF YOUR STRATEGIC IMPLEMENTATION?

The question is plain and simple. But, as often in strategy, the underlying questions of a seemingly simple question are not as simple as the initial question. In this case, the quality of execution directly questions the quality of your operations aka the quality of your value chain. More subtly, it might question the quality of project management within your firm as strategies, tactics, and their associated transformation and continuous improvement initiatives are implemented through projects.

Or how an initially simple question to the CEO becomes an Operational Roundtable involving the Chief Operating Officer, Chief Transformation Officer, and possibly Program & Project Management Office Executives.

⑧ WHAT IS THE DISTINCTIVE VALUE OF THE UNDERLYING ASSETS OF YOUR BUSINESS MODEL, AND DO YOU UTILIZE THEM EFFECTIVELY?

Do you have the means of your ambitions? Or, in other words, ***does the individual or collective value of your tangible and intangible assets help you put your business model to work and put you ahead of the competition?***

Let us take the intangible example of a brand. Does your brand effectively support your value proposition by providing a significant emotional value to your clients? Is your brand image in harmony with your client segmentation? Is the brand experience you provide to your clients in line with the way you intend to engage with them?

This example of the brand asset highlights how the fundamental multi-entry questions of assets value directly refer to the foundations of the internal and external success of your business model.

⑨ WHAT DOES THE PROFITABILITY EQUATION OF YOUR BUSINESS MODEL TELL YOU?

At the end of the day, financials are the ultimate judge of the success of your business model strategy. Hence, breaking down the revenue generation and cost structure variables of the firm's profitability equation provides insights on the dimensions of your business model to further strengthen and capitalize on, and those requiring transformational improvements.

In this context, one can easily grasp the critical importance of the role of Chief Financial Officers and their Finance Function as strategic business partners enabling strategy execution and monitoring.

⑩ How do you make your portfolio of business models coexist?

While business model strategy can be looked at individually at business level, corporate strategy —through the portfolio strategy— intrinsically raises the question of business models coexistence, be it for multi-business portfolios or even for mono-business portfolios operating across various geographies for instance.

As one can imagine, coexistence questions will flow according to the size and the complexity of the portfolio, but among the business model portfolio strategy questions that may keep CEOs and the C-Suite awake at night, and very busy during the day, we may cite:

Can we synergize our capabilities across our portfolio of value propositions? Should we standardize/harmonize our client engagement process throughout our portfolio of client bases? Could we unlock economies of scale or scope across our portfolio of value chains?

Ultimately, by comprehensively answering these critical ten questions across all the dimensions of their coexisting business models, CEOs and C-Suite Executives have the opportunity not only to master *The Ten Commandments of their Business Model* but also to be effective *Commanders in Chief and Commandment-Suite of their Business Model Strategy*.

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Thinking about RETHINKING your business model? Looking for clarity on its strategic relevance, robustness, or overarching equilibrium? You believe in the power of a strategic assessment?

Let's engage in a strategic conversation to see how we can help: contact@mpoyostrategy.com.