



HOW TO CREATE a transformative business model

ADOPTING AN 'AS-A-SERVICE' OR 'PAY-PER-USE' BUSINESS MODEL COULD PROVIDE FIRMS WITH AN OPPORTUNITY TO ACHIEVE CUSTOMER SATISFACTION WHILE DELIVERING ON GROWTH STRATEGIES.

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Success in today's challenging marketplace requires organisations to adopt business models that are transformative and capable of renewal. Many organisations have legacy business models that are no longer right for the business and do not deliver the required service delivery to the customer. A classic example of this transformation is the

increasing focus on delivering services, or even outcomes, to customers that displace the traditional sales model.

In this article, we will consider how your organisation might review its existing business sales model and transform it into a service-led model that creates sustainable growth into the future. The sections that follow set out the underlying components of a successful business transformation model (BTM).

STRATEGIC DEVELOPMENT

Consider an example where an organisation is looking to move from a traditional sales model to a pure service delivery model. The organisation will need to prepare for such a significant change to its commercial operating model, and there are material financial implications as the organisation will likely have to make substantial upfront investments to achieve the required returns in future years.

Also, fundamental changes will likely be required within the organisation in the areas of product development, sales, accounting, and customer service. The organisation will need a broader solution set to deliver 'as-a-service' requirements. This new solution will require the organisation to adopt and operationalise many new concepts including services, maintenance, data analytics, internet of things (IoT) data capture, measurement methods, asset tracking, remote monitoring, new pricing insights (such as pay-per-use), and value creation.

Preparing the organisation for such a BTM will require an initial strategic development review to consider these new operational areas and answer the following questions:

- Does this BTM fit in with the organisation's growth strategy?
- How does this position the organisation in the marketplace?
- What are the risks and constraints of adopting a new model?
- What will be the end customer response to the new value proposition development?
- How is the value created, and how do you position the pricing?
- Has a business case been developed to support it?
- Are you planning a support infrastructure?

MARKET ANALYSIS, TESTING, AND BENCHMARKING

Upon completion of the strategic development stage, the organisation should conduct a comprehensive market

analysis and benchmarking exercise. This phase is critical to give the organisation's senior management team a full understanding of the new BTM and ensure that they are comfortable with the opportunities and risks. At this stage, it is important to examine the implications of early adoption of a new BTM, including the potential gains, competitive advantages, and potential risks arising from the organisation.

Aspects for consideration include:

- What is the market, and how do the main competitors operate?
- What is the new value proposition, and how is this positioned in the market?
- What are the benchmarking parameters, and who should you benchmark against?
- What will the pricing structure be, and what are its features and benefits?

Regarding pricing structures for an 'as-a-service' model, the organisation must analyse and decide on the optimum pricing model that works for its suppliers and customers. The pricing choices are generally between outcome-based and time/usage-based models.

Outcome-based models focus on achieving specific financial or operational targets. The underlying requirement for selecting this option is that the targets can be valued and accurately measured. Time/usage-based models, on the other hand, focus on precise, identifiable and measurable targets.

GO-TO-MARKET MODEL ANALYSIS

After the market analysis and benchmarking phase, the

organisation should conduct a 'go-to-market' (GTM) model analysis. The following elements should be considered in this phase:

- What will the functional design look like?
- What are the elements of the structural design?
- Complete a gap analysis between current 'as is' structures and 'to be' structures.
- What are the regulatory requirements arising from the new BTM?
- Review any changes to accounting treatment and operational processes.
- Review the build/partner/buy options for implementing a BTM.
- Identify and evaluate suitable partners that will support the BTM.

MAKING THE BTM OPERATIONAL

To make the BTM operational, the organisation should consider the following questions carefully:

- Are all key stakeholders (internal and external) aligned?
- Are all risk management plans in place?
- Are the data requirements clear and sources/collection methods identified?
- Have systems and monitoring tools been selected and tested?
- Are processes designed and implemented?
- Are the governance structures and controls established?
- Has the organisation's target operating model been designed?
- Have the resource and competency requirements been completed?



CRITICAL ELEMENTS IN A BUSINESS TRANSFORMATION MODEL



- Have the marketing programme and sales campaigns been established?
- Has the training and coaching programme been established and completed?

WHAT'S THE ENDGAME?

Moving an organisation's core business model from a traditional sales model to a service-led model can provide differentiation from competition, gain early mover competitive advantage, and generate incremental sales of more margin-rich services. Most importantly, a move to an 'as-a-service' model can enable IoT and 'Industry 4.0' analytics and data streams. These can be leveraged to reduce costs, improve customer experience, drive new income streams, become a real differentiator, and ultimately increase customer retention.

In summary, a successful new 'as-a-service' BTM is an invaluable opportunity to achieve customer satisfaction and deliver on your organisation's growth strategies.

FUNDING THE NEW BTM

The next stage will involve setting up funding structures to support the new programme. The following tasks should be carried out:

- Complete deal structuring scenarios (internal, external, and a combination of the two).
- Obtain final agreement on structuring between all parties (suppliers, customers, and banks).
- Complete underlying legal documents (end-customer and programme agreements).
- Evaluate and select suitable funding partners.
- Complete transaction and funding processes (pay particular attention to the funding of any variable element).

COMMERCIAL EXECUTION

The final stage in the introduction of a new BTM is to pilot the operations and begin commercial operations upon the successful completion of the pilot(s). The following should be considered both for the pilot and the 'go live' phase:

- Are the pricing models operating as expected for the organisation and the customer?
- Are the risk management processes and controls in place and operating effectively?
- Have KPIs been established and adopted (both for senior executives and the front line)?
- Has the incentives plan been developed and accepted?



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