

Second Edition

Radical Business Model Transformation

How leading organizations have
successfully adapted to disruption

Carsten Linz
Günter Müller-Stewens
Alexander Zimmermann



PRAISE FOR RADICAL BUSINESS MODEL TRANSFORMATION, SECOND EDITION

A challenging and thought-provoking read for those looking to master the complexities of making digital transformation work in practice. This excellent book gets right to the heart of business model transformation with frameworks for developing strategy and practical examples for delivery, transition and corporate buy-in.

Mark Spelman, Member of the Executive Committee, World Economic Forum

This book demonstrates that business model transformation can be a highly effective means for successful digital transformation. When platforms and ecosystems challenge the market rules, especially for traditional companies, this step-by-step guide shows how to proactively shift your business model in order to shape future success. A must-read!

Gisbert Rühl, CEO, Klöckner & Co SE

The asset-heavy chemical industry is still very much based on traditional business models. Many of our customer industries, however, are in transformation. This book helps you question your own business models and at the same time better understand those customers who are already in a transformation mode.

Martin Brudermüller, CEO, BASF

As we enter the 2020s, one of the most important forces transforming the fortunes of firms old and new is the change in business models. This book gives you a thoughtful, well-researched guide to what changes and why, what works and what you can do about it. With plenty of detail from sectors as diverse as automotive, chemicals, software, film distribution and production and education, the red thread of what business model transformation is, and how to succeed in it, comes alive. This is a tour de force providing a great illustration of one of

today's key competitive challenges – how to respond to radical business model change and, better still, how to lead the way.

Michael G Jacobides, Sir Donald Gordon Chair of Entrepreneurship and Innovation, and Professor of Strategy, London Business School

I congratulate Dr Linz and his co-authors on this impressive, highly relevant book. Business model transformation is the prevailing theme of the modern economy. This is required reading for anyone who wants to know how innovation can create new opportunity and growth.

Bill McDermott, CEO, ServiceNow

Highly relevant for leaders. This book provides both an excellent conceptual structure and great insights through a wide range of real company cases. Until now, such guidance to transform your business model was missing.

Dr Sami Atiya, Member of the Group Executive Committee and President, Robotics and Discrete Automation, ABB Ltd

Transformation is becoming the mantra of our time, and for good reason: we are experiencing dramatic changes in technology, society and business. Technology can take us so far – yet without entrepreneurial leadership grounded in morality and ethics we will veer into technocracy. It is in the spirit of Peter Drucker that this book shows the broader picture of the transformation journey beyond management techniques, and with the necessary emphasis on the human aspects of change.

Richard Straub, President, Global Peter Drucker Forum

The authors provide great insights into how to transform a business model. Clear guidelines and many examples provide important learnings for every transformation leader.

Oliver Gassmann and Karolin Frankenberger, Professors at the University of St. Gallen, authors of *The Business Model Navigator*

To stay ahead as innovation leaders, we at TRUMPF rethink, expand and even disrupt our business models. The authors have created a highly effective strategic framework and a wealth of case studies, which explore how to systematically transform business models to pioneer the fourth industrial revolution.

Dr Ulrich Faisst, Digital Transformation Officer, TRUMPF

We are at a critical time for most incumbent organizations as their existing business models are failing and they struggle to adapt to technological change – they need to fight back! With *Radical Business Model Transformation*, the authors offer inspiration and a proven blueprint that enables leaders to upgrade their business models and get them fit for the new digital economy.

Felix Staeritz, CEO, FoundersLane, and Founder, FightBackMovement

I love the categorization of business model transformation manoeuvres and the numerous rich examples. This is a powerful aid to any manager facing digital disruption – well-written and challenging.

Andrew Campbell, Director, Ashridge Strategic Management Centre, and author of *Operating Model Canvas*

Radical Business Model Transformation provides strong and in-depth frameworks and examples on why and how firms need to adapt the way they create and capture value. Importantly, in this new edition, the authors carefully and clearly explain why platform thinking and 'open ecosystem mindsets' are now more critical than ever if companies wish to succeed in an increasingly networked world.

Simon Torrance, Chairman, Platform Economy Summit

Radical Business Model Transformation is essential reading for those leaders who recognize the technology-driven, exponential pace of change and wish to create a bold vision for making a leap, thereby transforming the potential for their organizations towards desirable futures.

Harald Neidhardt, CEO and Curator, Futur/io Institute – Moonshots for Europe

When looking from space, you see the world even clearer with its increasingly volatile, uncertain, and paradigm-breaking playing field for business leaders. The authors provide strategic clarity, guidance for systematic shifts and enlightening case studies, which makes *Radical Business Model Transformation* a must-read for decision makers who want to make dynamic changes for a better tomorrow.

Josef Aschbacher, Director of Earth Observation Programmes and Head of Centre for Earth Observation, European Space Agency

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ABOUT THE AUTHORS

Carsten Linz is an entrepreneurial leader and expert on innovation-led business transformation. In almost 20 years in Executive roles focused on software-, data- and digitally fuelled growth, he has built-up several 100 million euro businesses and led company-wide transformation programmes affecting more than 60,000 employees. His most recent capacities include Group Digital Officer at BASF, Business Development Officer at SAP and Global Head of the Centre for Digital Leadership. He holds various advisory board seats, eg for the World Economic Forum's 'Digital Platforms and Ecosystems' project, serves on the committee of Europe's largest seed stage fund and acts as business angel. Dr Linz teaches in executive programmes at Mannheim Business School, European School of Management & Technology Berlin, University of St. Gallen and Stanford Graduate School. He is a sought-after keynote speaker and acts as adviser to CEOs around the world. His blog is carstenlinz.com (archived at <https://perma.cc/3H5N-4CBE>).

Günter Müller-Stewens is professor emeritus of the Institute of Management & Strategy at the University of St. Gallen. He has authored multiple books, articles and case studies in academic- and practitioner-oriented journals. His most recent main research interest is corporate strategy, as well as the competencies and contributions of strategists in organizations. He has acted as dean of the business school at the University of St. Gallen and served as the academic director of several master's programmes. Furthermore, he founded the journal *M&A Review*, is a consultant and trainer to international companies, and an invited speaker at many conferences and meetings.

Alexander Zimmermann is professor of Entrepreneurship and Strategic Management and Vice-Rector for Teaching and Learning at the University of Liechtenstein. He has authored several practitioner-oriented and academic articles, case studies and book chapters on sustainable growth and organization design. His main research interest is how firms can reconcile trade-offs such as change versus stability, innovation versus efficiency, and economic versus social value creation through strategy, organization and leadership. He teaches at the bachelor's, master's, PhD and executive education levels and acts as a moderator and coach to assist companies' strategic and organizational transformation processes.

CONTRIBUTORS

The three authors have been driven by the question of how to transform a company's business model into the next one.

From the start of this project, we were clear that we wanted to discuss our ideas extensively with other business leaders and academic experts. In the early days, this took place through ad hoc personal conversations with individuals. As the project progressed, the approach became more structured, including the formation of an online community in which we discussed our ideas.

At the same time, we started to apply our framework extensively in executive education courses at the universities and business schools where we are active as senior lecturers – the University of St. Gallen, Mannheim Business School, the University of Liechtenstein, European School of Management and Technology (ESMT) Berlin, Karlsruhe Institute of Technology and Stanford Graduate School – and also in several in-house training settings. This proved to be an important asset for us. The interactions with CEOs and senior business leaders from all sorts of industries and company sizes, often over a course duration of several days, allowed us to discuss our concepts in quite some detail with more than 500 executives to date.

During this time, the idea emerged to further develop and refine our conceptual framework by involving leaders who have themselves experienced a transformation journey. We therefore selected compelling case studies from different industries and with different transformation paths and invited the relevant senior executives to write about their specific leadership experiences and learnings. In the first edition of *Radical Business Model Transformation*, we covered transformation case studies ranging from exponential-growth companies like Netflix to global players like Xerox, SAP, Daimler and Infosys, and mid-sized hidden champions like Knorr-Bremse and Kaba-LEGIC. In this second edition we have now included several new transformation cases like SingPost and Tranzplus from Asia, Klöckner & Co and Bühler from Europe, and replaced some of the former cases. Additionally, we have updated the key cases of the first edition such as Netflix, SAP, Daimler, Atlas Copco, University of St. Gallen and Knorr-Bremse to reflect their latest strategic transformation manoeuvres. The unifying element is

that all these companies went through or are in the process of completing a major business model transformation. The cases also illustrate in detail what the senior leaders did to successfully guide the organization through the radical shift.

The case authors in this second edition are the following:

Matthias Barth is global chief product manager for the Quote-to-Cash process at SAP. With his team he defines product strategy, roadmap and prioritizes development for the fast growing solution and subscription business in SAP S/4HANA.

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Ivanka Visnjic is an associate professor of innovation at ESADE Business School, where she also acts as the director of the Institute for Innovation and Knowledge Management.

As the book took shape and word about it began to spread through our teaching and case authors, we were approached by top executives to assist and guide them through their transformation journeys. Based on the tools we developed for these transformation projects, we decided to develop the step-by-step workshop approach guiding leaders to shape their company's future business model along our *Business Transformation Board*, which you can find in chapters 2 and 10 of this book.

Our approach to leveraging the wisdom of our crowd paid off tremendously. The feedback and input of so many talented people were instrumental in reaching the framework's maturity level. It also helped us to separate the useful from the superfluous, and thus to distil the core of our thinking. Many of the company examples in this book come from our crowd contributors and help to illustrate and make the content digestible.

Thank you very much for your support!

PREFACE TO THE FIRST EDITION

One key challenge of writing about business model transformation is that the subject is a moving target. Every day there is new information, new articles are published, you hear about new trends and interesting cases, and so on. But one day you must decide to end the writing process, because a pattern has emerged in your mind that covers what you read, see and hear. This took place in June 2016.

Despite the fact that business models attract much interest, some key questions remain unanswered. A particularly important open question is how to systematically change and transform a business model – from today's model into tomorrow's model – to (re)gain competitive advantage. Most companies already act within a given business model and can rarely start completely greenfield again.

In 2013, we decided that we wanted to learn more about how established firms could successfully and dynamically change their business models, and to turn this into a book on business model transformation. We have subsequently studied more than 380 companies or lines of business so as to better understand whether businesses changed their business models, which businesses opted for what kind of model, and how they have adjusted it. We conducted many interviews about companies' business model choices and their adaptation processes to a changing business environment. The more we deepened our research, the more we discovered that many companies we observed had to master more than simply an incremental change process if they wished to stay ahead of the competition – they had to master deep fundamental change and bring about a radical shift. Thus, in this book, we decided to focus on the challenges of leading such radical business model transformation processes.

Our book addresses the needs of executive-level business leaders, CIOs, CDOs, Chief Transformation Officers as well as academics with an interest in the subject. The book provides answers to some key questions today's leaders face: What business model choices are there? Where does our firm stand now? Is our current business model sustainable, or do we need to change it? If we need to change, how can we transform our business model?

Which options do we have, and what are the specific challenges and requirements of each path? What were the experiences of other firms and leaders on their radical transformation journeys?

By answering these questions, the book delivers three key benefits. First, it helps to provide a systematic and more integrated understanding of the often fuzzy topic of business models and their transformation. Second, it presents practical insights, recommendations and experiences of how to radically shift a business model. In-depth case studies of business leaders who have successfully led such a business model transformation journey help to illustrate the *how*. Third, it provides the Business Transformation Board as a proven framework and shared language to involve others in discussing and developing business model transformations.

Writing such a book over several years has been intellectually enriching and fun, as well as highly time-intensive and energy-intensive. Thus, first, we thank our families, specifically our spouses, Yvonne, Isabelle and Sina, for their unconditional support.

We thank our contributing crowd, especially our case study (co-)authors. They helped us to develop and refine our framework, and to fill it with life, through their exciting cases of radical transformation. By sharing their rich practical experience, they have provided us with much detailed knowledge and best practices. We also thank all our colleagues, friends and professional partners for their critical feedback, reflections, comments and suggestions to improve our book.

Our sincere thanks to our publishers, the team at Kogan Page, for their commitment and professional guidance in getting our book to you today.

PREFACE TO THE SECOND EDITION

We are now in the middle of the year 2020 and we are finalizing the second edition of this book. The topic of business model transformation has in no way lost its actuality. On the contrary, more and more companies see their established business models challenged by disruptive changes, driven by megatrends such as digitization and servitization, new horizontal forms of collaboration and organization, new competitors, blurring industry boundaries and a higher frequency of global crises where each defines a new normal. In almost all industries, platform-based business models and business ecosystems are emerging, but there is no one-size-fits-all strategy or holy grail for every organization.

This accelerated change has prompted us to write this second edition, which has been enriched in many ways. First, we have incorporated the latest developments from academic research, especially on platforms, ecosystems and outcome-based business models. Second, we have enriched the book with new in-depth case studies and numerous examples to further strengthen the global footage of the book as well as specific business model aspects. With SingPost and Tranzplus, we added two cases from Asia, and with Bühler, we have included a new business-to-business case. Third, we have taken our Business Transformation Board approach to the next level by leveraging the learnings from executive education workshops at several universities and business schools and developed it into a fully fledged workshop approach. And eventually, this second edition has also benefited from the vast feedback from leaders around the world, who have read the original book or one of its many translations including Chinese, Vietnamese, Hungarian and Russian. We are grateful for all feedback and owe our readers our sincere appreciation.

Again, our thanks go to our publishers, the team at Kogan Page, especially Amy Minshull and Adam Cox, for their commitment and professional guidance in getting the second edition of our book to you.

PART ONE Why business models need to radically shift

One secret to maintaining a thriving business is recognizing when it needs a fundamental change.

MARK W JOHNSON, CLAYTON M CHRISTENSEN
AND HENNING KAGERMANN¹

Most established companies understand their business model from the inside out. They have continuously fine-tuned it to stay aligned with changes in the environment, but they have not questioned their type of business model fundamentally. Today, however, disruptive changes, driven by megatrends such as digitalization and servitization lead to new horizontal forms of collaboration and organization, new competitors and blurring industry boundaries. This is putting more and more established business models under pressure.

Banks, for example, are exposed to digitization in many ways. They are being increasingly harassed not only by small fintechs but also by non-banks such as the 3As (Amazon, Apple and Alibaba), which are penetrating more and more into the terrain of banks not only in payment transactions but also in lending, or asset and investment consulting. Banks become (in part) software and technology companies leveraging blockchain (distributed ledger), digital assets (regtech), and cybersecurity to place trust at the heart of any digital agenda. To meet customer expectations for on-demand delivery, banks must look beyond digitalizing existing services and establish open banking platforms for connected digital services. Ecosystems are created through the integration of third-party service providers via application