Business Model Excellence

To Lene, Andreas, Celina, Mie,
family, friends and colleagues

Søren Laungaard

Business Model Excellence

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Edited and co-written by
Lene Laungaard

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– Preface –

Throughout my career I have worked in different industries, companies and geographies and been involved in virtually all standard functional area – on corporate, regional or country level – as either manager, executive, owner, advisor or board member. It has been assignments in highly complex business models, programs and projects, and there were always 2 inherent objectives within my direct or indirect responsibilities:

- *Finding the performance levers:* Maximising the company, function or project impact by discovering the high potential areas and optimising performance.
- *Mastering the system complexities and interdependencies:* Enhancing the interfaces, sub-systems and stakeholder relations by understanding the overall interdependencies, causes and effects, and removing the barriers and leakages.

While the assignments have been vastly different in terms of industry, scope and functional area, ranging from global M&As and reorganisations to strategy programs, process excellence initiatives, advanced production, complex IT system development, technology R&D, etc., they have also shared surprisingly similar characteristics. There were embedded interdependencies and a natural sequence in the work, and succeeding required a multi-dimensional approach. Each stakeholder was dependent on others to succeed, and to reach the full potential everyone had to cooperate. It was also clear that to harvest the full potential, certain prerequisites – *building blocks* – within, for example, processes or structures were required. The existing foundation was often not strong enough, and finding the solutions required understanding the overall interdependencies. The leakages, root causes and barriers were dispersed across the business model, and only with an end-to-end perspective, unwavering mandate and perseverance, did we succeed – which created exceptional results. The identified levers lifted the results far beyond the normal performance level in any of the organisations.

In this book we will look deep inside company business models, and reveal the hidden building blocks that create *leverage* of results – higher and lasting performance. We will also explore what it takes to master business model system complexities and interdependencies.

Leverage applies in all aspects of life, both business and private, and from the individual to company level. In our private lives we know it from great innovations. A simple example is running a marathon. Think about covering the same distance on a bicycle, where you can move faster using less energy. The bicycle has a multiplying effect on the efforts. That is *leverage*.

The rider and the bicycle are a *system*. Together they are stronger than each individual part. We can expand this simple system with, for example, an engine, and move even faster and cover longer distances. Simple systems are relatively easy to understand and simulate. Models of more complex systems such as climates, economy, ocean currents, biology, have also been developed, but businesses are a system discipline that is hard to comprehend, and we lack the corresponding models to help us mastering business complexity and leverage.

Large companies are some of the most complex systems on Earth. Their business models are at times extremely complex – wicked. Sometimes it is an inherent complexity that can be managed, and sometimes the complexity is out of control. Companies operate under increasingly higher external pressures, and just defining the industry and company business models is getting increasingly harder. As a consequence we need to enhance our understanding of business models – not only of the individual performance levers, but also of the interdependencies, root causes of failures, external and internal drivers of complexity – and find ways of mastering these.

We will take a systems perspective on business models, outlining a comprehensive *Business Model Excellence Framework* of *3 Spheres, 12 Dimensions* and *48 Building Blocks* that addresses the interdependencies, complexities and root causes of failures, and generates business model speed, agility and efficiency – leverage. Each *Building Block* contains a number of components which in turn consists of concepts, models and tools respectively, thus the *Framework* has been designed with the following architecture:

L1: Spheres
L2: Dimensions
L3: Building Blocks
L4: Components
L5: Concepts/Models/Tools

It is a taxonomy which contains hundreds of concepts, models and tools, and also a knowledge management system that can be continuously expanded.

An insight I have gained through my diverse assignments, is that a monumental barrier in implementing *Business Model Excellence* relates to flaws in the human thinking – especially caused by wicked problems, taming, cognitive biases and framing. We will explore why these flaws can lead to company losses and failures, and how to recognise them and master new thinking models.

Sometimes the flaws are in the organisational thinking, logic or perception. For example, when executives and boards fail to understand the company execution capabilities, underestimate project complexity and wickedness, and are unrealistic about what the organisation in reality can shoulder. The flaws can also relate to the structure and approach. Strategy and execution often remains disconnected and approach gaps occur when companies take a narrow, tactical approach (taming the complexities), and thus only address part of the problems. It often leads to competing sub-strategies – or objectives – throughout the organisation, or constant changes and loss of momentum.

There can also be gaps in relation to competences and governance. This appears when companies have weak operational and governance processes and insufficient warning systems, inadequate skills, etc. and the organisation fails to address lacking performance with appropriate counteractions and immediate changes. It also occurs when companies do not develop their business models timely and adequately in response to future industry demands, and remain stuck on less advanced business model maturity levels.

All these underlying reasons explain why many strategic projects fail to deliver the expected results. A systemic model is missing and companies will benefit from having a complete framework of excellence. This book is about building this framework and embedding excellence – leverage – in the company business model.

As the largest value lies in understanding the entire business model system and interdependencies, the premise of this book is that it operates predominantly on the *Building Block* level. Changing this premise, while still exploring each *Building Block*, is not possible within the limits of a single book. It consequently provides an overall description of each of the 48 *Building Blocks* and outlines some of the main components, concepts or models, while also highlighting the critical linkages, interdependencies and value levers. Embedded in each *Building Block* is an inherent roadmap and guidance for how to approach the implementation and capability building, although the book will naturally demand much of the reader if the area is unfamiliar. There is more emphasis on describing the operational system and governance spheres of the framework, as the strategic options available to executive management at the end of the day are determined by the company execution and governance capabilities.

Business models are, like companies, wicked. There are no simple solutions for excellence and lasting success. Yet lasting success should always be the ultimate aspiration, as should the search for new learning, insights and wisdom. We should always try to find a way through the complexity – or make one. This is my way – providing an integrated answer to a wicked business reality within the limits of a book. I hope that it will provide you with new ways of generating leverage and higher levels of performance, and that you will find it inspiring and useful.

"For the simplicity on this side of complexity, I wouldn't give you a fig. But for the simplicity on the other side of complexity, for that I would give you anything I have." [1].

– Introduction –

Success is not random. Hard work and determination are essential elements of being successful, but if it was only about effort, the most brutal, determined and resourceful competitor would always win.

However, effort does not equal performance. There is another element in the equation of successful business performance, a multiplier effect creating results that are better than the starting point. The efforts are leveraged by something hidden in the company's business model.

A business model is like an engine; some engines run faster and longer on a litre of fuel than others. The fundamental problem is that companies generally do not know their exact business model capability. The specifications of a business model, and its related execution "horsepower", are unknowns. Execution as a discipline and capacity remains undefined, whereas visions are often without boundaries – which is a dangerous combination. Mastering the interdependencies of strategy, execution and governance systems is therefore crucial. Visions, strategies and stretch targets have to be balanced with a precise and rational perspective of the current capability, and how quickly the development of new execution capabilities will materialise. That is, making sure the strategy-execution gap between now and future is not too wide, and building the bridge to get there. A general with 500 soldiers cannot plan with more than that. He may receive more resources in the future, but he will have one overall strategy for winning with the resources he has now, and another for the most likely future scenario. Business and military history is filled with examples of the consequences of wishful thinking. The best generals in history have always known the true execution capabilities of their armies, relative to the capabilities of the enemy.

However, determining the business model execution capability requires that we specify the business model first. This is a complex – wicked – assignment. Whereas business models are complex, people crave for simplicity, great stories, heroes and predictability. Halos[2] – traits and labels – are often attributed to successful companies based on their past successes as perceived from the outside. The *halo effect* is a tendency (and cognitive bias) to look at a company's performance and make attributions about its business model, leadership, efficiency, culture and more. Enron is a well-known example, and there are numerous other examples throughout history. The companies in the spotlight are applauded, until the success suddenly stops. Most of the time the companies get stuck in the middle with intensified competition, falling prices, commoditisation and thus worsened results. Sometimes the companies go bankrupt. The cheering ends.

"Our size, experience and skills give us enormous competitive advantages. Our technology and fulfilment systems ensure execution. In current market environments, these abilities make Enron the right company with the right model at the right time." Enron Annual Report 2000[3] (bankrupt in 2001).

From the 16 companies selected in the best-selling and famous book *Built to Last*[4], chosen because they had outperformed the market by a factor of 15 over 64 years, only 6 kept pace with the S&P 500 in the 10 years following the study (in terms of total shareholder return from 1991 to 2000)[5]. Similar studies of other best-selling books show the same picture – the selected winners often deteriorate in the periods after the empirical studies. Trying to predict future winners based on past success is an overly simplistic (taming) approach to a complex challenge. Nobody has yet – neither authors nor stock analysts – been able to sustainably beat the market in their predictions. There is no silver bullet, and too many changing variables.

Despite this, a plethora of best-selling books offer formulas for sustainable profits. Many of them by describing attributes such as:

- Being focused
- Innovative
- Customer oriented
- Strong leadership
- Winning cultures
- Flawless execution

These generic attributes are merely halos, only stating the obvious, and not revealing *how*. They are hard to disagree with and they are, in many markets, non-negotiable. If companies are not innovative and customer oriented, they are heading for trouble. So we have to go deeper than mere attributes and show the architecture, building blocks and interdependencies of business models. To accomplish that, we have to create our own system, framework and definitions.

- Defining a Business Model -

Try asking your colleagues, manager or peers about the definition of a business model, and you will get very different replies.

So what is a business model?

Although, it is not as well covered in business literature as strategy is, it already has several definitions. The essence of most definitions circles around "how to generate revenue" or perhaps more precisely "create value". The following sources define a business model as:

- *Wikipedia*: "Describes the rationale of how an organisation creates, delivers and captures value."[6]
- *BusinessDictionary*: "Description of means and methods a firm employs to earn the revenue projected in its plans. It views the business as a system and answers the question, "How are we going to make money to survive and grow?"[7]
- *Investorwords*: "A description of the operations of a business including the components of the business, the functions of the business, and the revenues and expenses that the business generates."[8]
- *Investopedia*: "The plan implemented by a company to generate revenue and make a profit from operations. The model includes the components and functions of the business, as well as the revenues it generates and the expenses it incurs."[9]
- *Financial Times Lexicon*: "This describes the method or means by which a company tries to capture value from its business. A Business Model may be based on many different aspects of a company, such as how it makes, distributes, prices or advertises its products."[10]
- *eHow*: "Business Models define how a firm will define and promote its brand, produce and distribute its product and build or attract its market. Yet business models are often one of the most misunderstood aspects of doing business today. In the simplest sense, the Business Model is how the company plans to operate, compete and generate revenue."[11]

Table: Business Model Definitions

In short, a *Business Model* is how companies create value – how companies, by converting inputs to outputs, generate the company multiplier effects, and thereby leverage:

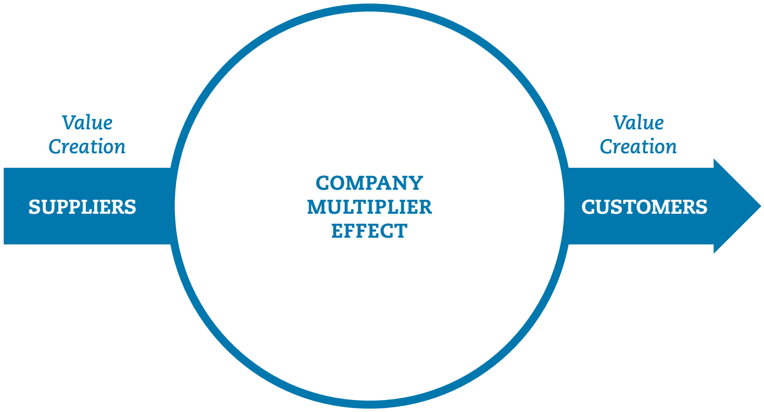


Figure: Company Value Creation

Most people will intuitively understand some of the key processes involved: sales or marketing processes (for generating revenues), or human resource or procurement processes (for securing resources such as people and materials). However, the definitions are high-level and we lack the underlying dimensions, building blocks and understanding of the interdependencies, for example, between execution and strategy, which remain blurred and with many unexplored facets.

If we instead asked people "what will make companies successful?", we would receive an endless list of success factors: the right strategy, the employees, innovation, leadership, execution, culture, customer orientation, etc. At a certain level they would fundamentally all be right. Each success factor has its unique multiplier effect, and is a potential performance lever. We could also add HR, sales, marketing and procurement and many more to the list. It would be a very long list, but at the same time a common list for all companies. The only difference would be the ranking of the success factors, depending on the specific company and its situation. However, an endless list of success factors wouldn't bring us much further in defining exactly what creates speed, agility and conductivity – *Business Model Excellence*.

A MIT Sloan working paper from 2006[12] analysed whether some business models perform better than others. The paper classified 1,000 American companies into 16 business models by combining 4 asset types (financial, physical, intangible and human) and 4 asset rights (creator, distributor, landlord and broker). It was a very comprehensive study of business model profitability, and it concluded, unsurprisingly, that some models perform better than others. Of all the studied companies 97% fell into 5 categories: manufacturer (57%), wholesale/retail (14%), physical landlords (10%), contractors (8%) and financial landlords (8%). Companies as different as Wal-Mart and Amazon (wholesale/retail) or Marriott and Hertz (physical landlord) were in the same categories, and 57% of all companies were classified as manufacturers. However, the study did not explain what drives performance, and the study in their own words "raises more questions than it answers"[13].

The 4 x 4 classification is thus not very helpful, since it basically only provides us with 5 archetypes of business models, and nothing more. It does not help us to understand business model construction, or what drives performance, and the strategy, execution and governance dimensions are not considered.

So to gain a deeper understanding of business models, "how companies create value", we will establish our own definition. It has to be encompassing all relevant building blocks of business performance multipliers, while ensuring that all the building blocks are synchronised. It should tell us how companies are constructed, giving us the *what* and *how* of *Business Model Excellence*.

The first step is to establish the connection from the company to the main stakeholders. In any company value is built through the supply chain, and flows back from the customers through revenues. This is the most basic definition of creating value: buying something, adding value and selling it at a higher price. A simple example is a bakery buying flour from a mill, and subsequently baking and selling bread. The basic business model therefore explains how companies monetise their strategy, tying together the 3 fundamental groupings of any corporation: customers, the company itself and suppliers. By adding the numbers (the profit & loss), we could explain the magnitude of the value creation – matching revenues and costs.

The above model is, however, still a very simplified representation of the reality, and complexity, that companies are faced with. Business models as well as performance are formed by hundreds of factors and decisions. The many strategic choices, the selected value proposition, the asset and value chain configuration, and the configuration of the company organisation, systems and processes, are just some of the factors. Keeping the definition and model on this aggregated level does not address the impact of strategy on the company design, nor explain the fundamental strategic choices made and their consequences. Neither would it illustrate anything about execution – what the company needs to operate and excel in. The company, and its strategy and execution, remains detached. So we need to bring these elements – strategy and execution – into play, in order to understand how to leverage results. We need to elaborate further on the model, and expand the framework.

The basic business model discussed above is a static representation of a dynamic world. It will only remain in control until the first change or shock to the system. For the business model to be dynamic and agile, it has to be constantly enhanced and re-calibrated through company information, control and decision-making systems. Thus we also have to understand these dynamic re-calibration and governance processes, and how it all links with the strategy and execution.

In a well-functioning organisation (let's call it scenario 1), something would appear on the company "radar". It would be caused by an external or internal "trigger" like a market downturn, changed customer requirements, new competitive landscape, innovation, new technologies or other changes. Executive management would review the options, and present a revised and executable strategy to the board members. The strategy would be decided, and the deployment would run seamlessly throughout the entire organisation. We would see changes to networks and the asset base, partnerships and distribution, sourcing and manufacturing, structures, roles and responsibilities, products and services, processes, IT systems, etc. All the involved stakeholders would be satisfied.

However, what often happens in real life is (let's call it scenario 2), that the "radar" is not turned on, or reactions are too slow. When presented to the board, the strategy options and choices are biased, far from being executable and include a portion of wishful thinking. The subsequent execution is far from seamless, as there are significant internal barriers and resistance. The required skills are lacking, the operational pre-requisites are not synchronised, and the organisation already has enough to do keeping the day-to-day business afloat.

We need to learn from this. From the 2 scenarios we can deduce that 3 distinct systems are operating:

1. *A Governance system* – detecting the need to change.
2. *A Strategy system* – deciding on strategic options and choices.
3. *An Execution system* – performing the operational implementation of changes and enhancements.

We can also determine that the difference between the two scenarios, is how fast, agile and efficient the company response and performance is. We can thus expand our business model definition to include these 3 company systems, which will also guide the construction of our *Business Model Excellence Framework*, which accordingly has 3 *Spheres*:

- *Sphere 1: Business Governance.* The outer sphere that ensures the ongoing recalibration of the business model.
- *Sphere 2: Strategy.* The middle sphere that defines the company shape and scope.
- *Sphere 3: Operational System.* The system core that is executing and monetising the strategy.

With this we have now detailed the basic business model further into a more elaborate *Framework* of 3 *Spheres*. The company sustainability, and continuous recalibration of the business model, will be secured through the *Business Governance Sphere*. The *Strategy Sphere* will seek to exploit the true value potential of the company, determining options and choices, and the *Operational System Sphere* will execute accordingly:

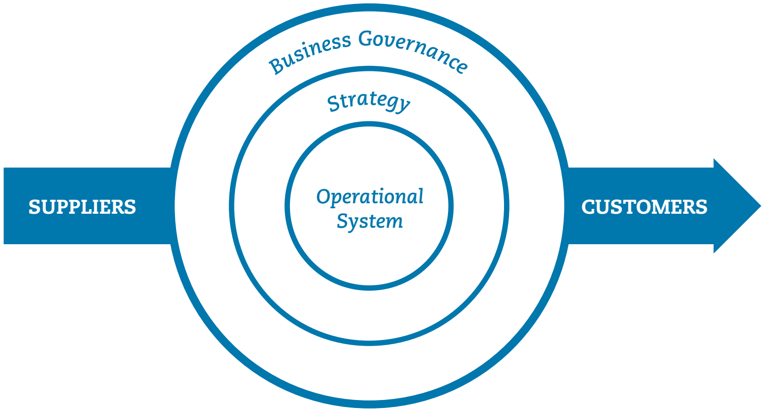


Figure: Business Model Excellence Framework Level 1

The 3 *Spheres* cover all design and operational aspects of the interactions between suppliers, company and customers – including the value creation, value propositions and structures. In other words, the 3 *Spheres* each need to bridge across the 3 key *Business Model* stakeholders (namely suppliers, company and customers).

We will define the exact interdependencies between *Business Governance*, *Strategy* and the *Operational System*, and establish a comprehensive sub-framework for each *Sphere* consisting of *4 Dimensions* and *16 Building Blocks*. It will show how companies are formed by the choices they make, and that business models can be moulded over the same fundamental *Building Blocks*. It will provide a standardised approach to strategy design, and anchor everything in one framework. We will show that regardless of the company's business model and strategy, there are critical disciplines residing in the *Operational System*, in which all companies must excel. Finally, we will dive into *Business Governance* to understand and design information systems, development and optimisation reference systems, thinking models and belief systems, keeping the entire *Framework* agile, fast and efficient.

We will put execution, decision efficiency, complexity and wickedness on formula, in order to understand what drives strategic success, or failure. Across the entire company *Business Model* we will form a comprehensive *Framework* where hundreds of concepts, models and tools can be anchored, creating a comprehensive taxonomy for the entire system. It will provide a deeper understanding of what drives company performance, and what it takes to win. Success does not happen by chance – it has to be created.

It will show that while the business model configuration is unique for each company, the fundamental *Building Blocks* are actually the same for all companies. The optimal business model characteristics are also universal – the model has to be agile, fast and efficient and we will construct the *Building Blocks* accordingly.

We can complete our definition of a business model by adding the strategy, execution and governance aspects to the above definitions:

A Business Model is how a company creates, delivers and captures value throughout the industry value chain, linking customers, company and suppliers. A Business Model is designed by the Company Strategy, executed via the Operational System, and constantly re-calibrated through the Business Governance.

For many, the company business model is a black hole. However, it is key that everyone understands the business model of the company they lead or work in. Understanding is the first step of being able to improve. Few people would disagree that there are well-run and well-structured companies, offering best practices to others. However, it has to be more than attributes. Being customer-focused is not insightful, but building customer focus into each aspect of the business model is. The right question is then not which attributes best describe the business model, but how to build speed, agility and efficiency.

A company is a system intertwining potentially thousands of people, suppliers, stakeholders, partners and processes across multiple geographies, locations, cultures, behaviours, emotions and conflicting interests. The business model for a large international conglomerate, private or governmental, is one of the most complex systems on Earth. The leverage, or multiplication, effect from the business model on the company performance can be either below or above a factor of 1. We know it from sports teams – the coach, tactics and playing concepts either enhance or reduce the efforts and resources (skills) of the players. Sometimes, quite often actually, great teams punch above their weight and consistently produce results that cannot be explained by efforts alone. We also know it from our marathon example. The bicycle is a multiplier that generates speed and efficiency – conductivity – and also provides overall flexibility and more options – agility – for the rider. Instead of only covering 42 km in about two hours by running, the rider using a bicycle can travel about 100 km in the same time frame. The multiplier is thus significant.

While business is far more complex than sports, the same basic formula applies in companies. The company business model will either reduce or enhance performance throughout the company value chain, from the very first inputs to the final outputs to customers. Each *Building Block, component, concept, model* and *tool* embedded in the company business model will have its own *multiplier* effect – and will also synergize with other parts of the company business model.

These *multiplier* effects are created by excellence in the company business model – *Business Model Excellence*. We will define the formula like this:

Efforts x BM^{E} = Results

Throughout the book we will explore the potential BM^E multipliers in the respective *Dimensions* and *Building Blocks*. As explained we cannot describe every aspect in full detail, but each *Building Block* will provide guidance and outline an overall roadmap, while highlighting some of the key components, concepts, models and tools.

Through these BM^E multipliers the company business model either improves or deteriorates efforts – and creates or destroys value. The aim is naturally to create the highest overall BM^E, and every company has a certain starting point of potentially unique resources, and is fed with energy. Products, services, brand equity, trademarks, patents, capital, assets, customer base and reach, access to partners and networks, skills, hard work and determination, etc. are all part of the combined efforts:

Efforts = (Unique) Resources + "Energy"

The business model produces a result. Either factor – effort or business model – can compensate for below par performance in the other, but consistent superior performance – winning – takes both.

History is filled with examples of companies having both superior efforts and business models, and therefore superior results, for a period of time. However, there are almost as many examples of businesses eventually failing, after a period of superior success, as there are of winning streaks. Beating the competition over 5, 10 or 15 years is not uncommon, but how many companies are continuously successful over decades? Markets, customer requirements and technologies change, so business models must also change. Very few businesses are older than a century. Finding one fixed and everlasting business model is unlikely. The business model therefore has to be efficient, fast and agile, which means that the company BM^E multipliers – like the bicycle – should create conductivity (efficiency), speed and agility:

BM^E = Conductivity x Speed x Agility

If competition is improving faster than your company, the potential advantages that the company enjoy now, are eroding every day. If your company is already behind, the gap is expanding. Shocks to the business model – internally or externally caused – have to be accommodated. So understanding each business model element and its overall contribution (multiplier effect), and constantly improving on these, is the only option to stay ahead of competition. Superior business models are built, improved and perfected over years, and this requires a very different mind-set and perspective than normally applied.

This book is about building an excellence framework, and continuously enhancing it. Not in terms of generic attributes, but in terms of integrated *Building Blocks*. We will define all the key aspects of company business models, and how to achieve excellence and create BM^E. We will also determine the tools and concepts required to enhance the thinking of leaders on all levels. It will provide us with a radical change in perspective on company performance, and how to constantly improve. It will reveal which mechanisms a company requires to timely perceive and drive necessary changes.

The secret to *Business Model Excellence* lies in the design, architecture, linkages, synergies and balances of the business model elements. There is a lot to understand, and it is all interdependent, so we will examine each *Building Block*, and how it all links.

- The 3 Spheres -

We have now determined the definition and the 3 main *Spheres* of our *Business Model*: *Business Governance, Strategy* and the *Operational System*. We need to establish the sub-frameworks to understand what creates leverage (BM^E). Each *Sphere* will be divided into 4 *Dimensions*, and further into 4 *Building Blocks* for each *Dimension*, which will provide a fundamental understanding of the key *Business Model Excellence* elements. We will examine each of the 48 *Building Blocks* with the BM^E formula in mind. First we will introduce the twelve *Dimensions* to provide an initial overview and understanding of the *Framework*.

We will start with the second *Sphere*, being *Strategy*, as it defines the company shape and scope.

- Sphere 2: Strategy -

"Tactics without strategy is the noise before defeat",
Sun Tzu (544-496 b.c.), Chinese military general and strategist.[14]

The company strategy defines the company. The strategy needs to answer basic questions like:

- Where do we compete?
- Who are our customers, and what do they want?
- What does it take to win and gain competitive advantages?

Strategy is choice – decision-making considering the company's possibilities and constraints – and the strategy should exploit the full company potential. It starts with being realistic, brutally honest, about current execution capabilities and gaps. Then we have to ensure that the *Operational System* builds the necessary capabilities. Otherwise the company won't be able to execute on the vision and desired strategic changes, and strategy becomes just words – a hollow ambition. A brilliant strategy that cannot be implemented, and controlled, will be destroying value, compared to the good strategy that can. We will through the *Strategy Dimensions* design a system, that can deliver brilliant *and* executable strategies contributing to the company BM^E.

While strategies are different, the list of *Building Blocks*, components and key questions are the same in any industry. We will define the *Strategy Sphere* by following 4 *Dimensions*:

- *Dimension 2.1: Industry Value Chain*. The company placement and configuration in the overall Industry Value Chain.
- *Dimension 2.2: Battlefields*. The areas, segments and technologies where the company chooses to compete.
- *Dimension 2.3: Value Proposition*. The offerings, channels, structures and prices, which are delivered to customers.
- *Dimension 2.4: Competitive Advantages*. The company capability gap and targeted advantages.

The 16 related *Building Blocks* will make the company strategy tangible and complete. More importantly, they will create the foundation for truly linking the company strategy to the *Operational System* and thereby execution.

- Sphere 3: The Operational System -

While much has been written about designing strategy, and lately implementing it, company execution is less well covered. However, talking about strategy in a vacuum without execution and governance is meaningless.

"Strategy equals execution", General Colin Powell[15]

So what is execution, and how do we determine the execution capability? If you ask around, execution is commonly defined as "getting things done". In the context of this book, we will discuss execution relating to businesses and business models – creating value – through the operational and governance systems, and when designing and deploying strategies.

We will establish the architectures and characteristics required for all operational systems to excel, regardless of the industry or company involved. This will be achieved via the 4 *Dimensions* of the *Operational System*:

- *Dimension 3.1: Structural Excellence*. The organisational, decision and financial backbones of the organisation.
- *Dimension 3.2: Process Excellence*. The company process and IT infrastructures and competences.
- *Dimension 3.3: Functional Excellence*. The development of world-class performance in each core function.
- *Dimension 3.4: Execution Excellence*. The company leadership, execution models, integrated competence development and culture.

We will establish an *Operational System*, that can effectively deploy new strategies and concepts. Leading organisations execute and respond faster to changes than the competition, and their organisations are designed accordingly.

By implementing an improvement methodology and system, which manages complexity, we create the process foundation for strategic changes – and thereby gain organisational efficiency, scalability and speed. We will introduce *Building Blocks* to lift functional performance up to world-class standards, and thereby create competitive advantages, and other *Building Blocks* for strategy deployment and execution.

We will also ensure that leaders and employees are thoroughly trained and performing, by enhancing their skills and fostering a company performance culture.

- Sphere 1: Business Governance -

The last, and outer, *Sphere* is *Business Governance*. For many executives the ultimate question is how to generate sustainable, profitable growth – higher profits and market share each year. Business is, ultimately, about making money. New strategies are crafted, revised and revisited, in ongoing cycles, with management constantly trying to optimise results, and there is a world of concepts to pick from within business literature in the fields of strategy, organisational theory, leadership, operations, innovation, etc. Yet few companies remain truly successful over longer periods – and lasting success is elusive. Financial crisis and bankruptcies bear evidence to that. The FT 30 – being the oldest stock index in the UK – was established in 1935. Only 4 of the original constituents are in the expanded FTSE 100 today[16] (measuring the highest market capitalisation for the companies listed on the London Stock Exchange). Similarly, the lifespans of top companies in the S&P 500 are shrinking from an average of 61 years tenure in 1958 to 25 years in 1980 and 18 years by 2012[17]. If any company seeks to be the exception to the rule, their business model has to be sustainable and responsive to change.

In the *Business Governance Sphere* we operate with 4 *Dimensions*:

- *Dimension 1.1: PARAMIND*. The excellence mind-set for combating mental flaws with systemic thinking models and constancy of purpose.
- *Dimension 1.2: Superconductivity*. The configuration of the value disciplines for ultimate convergence, and for zero business model resistance and waste.
- *Dimension 1.3: Dynamic Adaption*. The dynamic and continuous adaption of the business model to changing external and internal conditions.
- *Dimension 1.4: Board Excellence*. The Business Model Excellence Framework ownership, required board behaviours and company beliefs.

We will look at critical thinking models to overcome cognitive biases, and flaws in our mental accounting. The brain can only see, what it is prepared to see. The consequence is that the company thinking is limited and constrained, and creativity is naturally hindered. However, the errors are systematic, and there are ways to control the mental flaws and improve on the thinking processes and outputs.

We will introduce a level of efficiency called *Superconductivity*, being an overarching design level concept and reference. The primary aim of *Superconductivity* is that the business model should remain entirely free of trade-offs, sub-optimisation and competing factors neutralising each other.

The *Business Model Excellence Framework* needs a natural owner of the *Superconductivity* and other *Dimensions* – as the key to success is continuity. Companies also need other frames, and thinking, to predict and react quickly and timely to likely future scenarios, looking around corners and thinking several steps ahead. That is, setting up a warning system that will force them to see things differently. We will review 3 main forces which systematically and relentlessly drive change, and examine game theory and scenario planning models to manage these.

- The Business Model Excellence Framework -

The *Business Model Excellence Framework* with its 3 *Spheres* and 12 *Dimensions* will look as follows:

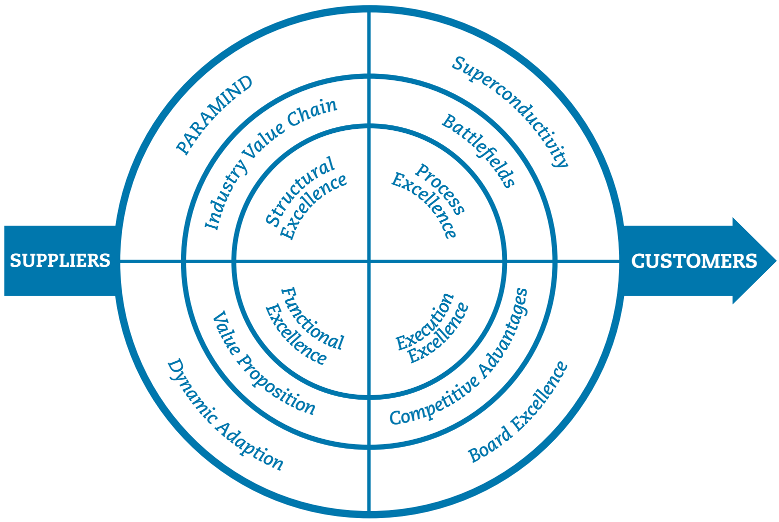


Figure: Business Model Excellence Framework Level 2

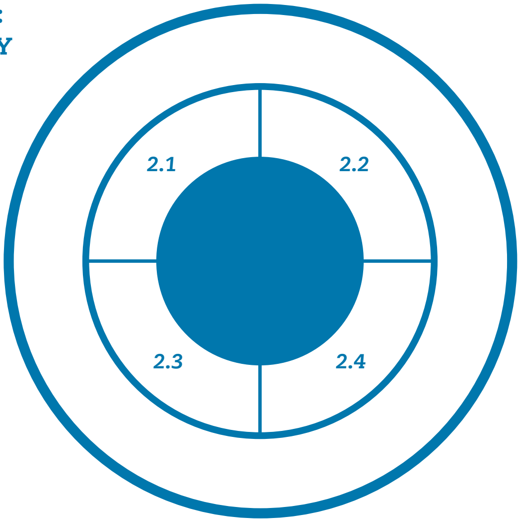
We will now explore each of the twelve *Dimensions*, and their related 48 *Building Blocks*, with the BM^E formula in mind:

BM^E = Conductivity x Speed x Agility

It will reveal the hidden variables that create leverage of results – BM^E – and provide new insights on business model complexities that have to be mastered regardless of industry.

In the next chapter, we will explore the *Strategy Sphere*. This will define the company scope, on which parameters the company wants to compete, what it will offer to customers, and how it seeks to win – and is therefore a natural place to start. We will also, through the *Strategy Sphere*, determine what the *Operational System* needs to be capable of. It will leave us with an excellent understanding of both the company potential, and the execution capability gaps.

SPHERE 2: STRATEGY



2.1 INDUSTRY VALUE CHAIN
2.1.1 Profit Potential
2.1.2 Make or Buy
2.1.3 Production Strategy
2.1.4 Capacity Configuration

2.2 BATTLEFIELDS
2.2.1 Market Coverage
2.2.2 Product / Service Range
2.2.3 Customer Segments
2.2.4 Technologies

2.3 VALUE PROPOSITION
2.3.1 Voice of the Customer
2.3.2 Industry Competitive Factors
2.3.3 Offerings & Account Structures
2.3.4 Pricing & Yield

2.4 COMPETITIVE ADVANTAGES
2.4.1 Threshold Levels
2.4.2 Criticality & Impact
2.4.3 Capability Gap
2.4.4 Targeted Advantages

Figure: Strategy Sphere Framework

– Sphere 2: Strategy –

Strategy is ultimately about winning, exploiting the company's true potential, and the choices companies have to make. It is about deciding the optimal direction, while considering the constraints that the company is operating under – creating the optimal result within the boundaries of execution capabilities.

Strategy is important. The wrong choices, or too many choices, can kill a company. But strategy is often misused, and even overrated, when the full complexities and interdependencies are not understood. In mastering strategy we need to:

- Cover the totality by understanding all the strategy aspects, facets and dimensions, and exploit the company's true potential.
- Master the interdependencies, choices, consequences and impacts in relation to the *Operational System*.
- Make sure that the strategy is executable and grounded in reality.
- Ensure that the company strategy is dynamic, agile and continually calibrated with the rest of the company business model, especially the execution and governance systems.

Table: Key Objectives for Mastering Strategy

There are countless and different strategy concepts, schools of thought and directions, so to achieve the above aims we have created our own integrated *Framework*. The strategy process can be illustrated in many ways, but the fundamental processes are analysis, formulation, implementation, execution, control and follow-up. We will in this book combine the 6 processes into 3 main strategy phases, fitting with the 3 *Spheres* of our *Business Model Excellence Framework*.

Strategy Design is placed in the *Strategy Sphere*. *Strategy Deployment* will be covered as part of the *Operational System Sphere*, and *Strategy Governance* is part of the *Business Governance Sphere*.

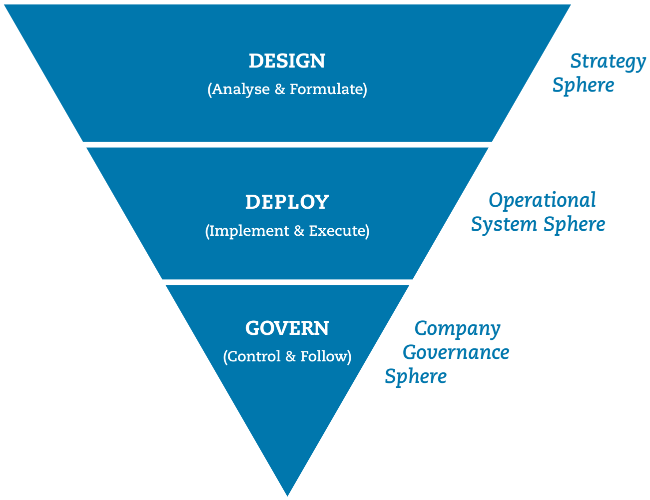


Figure: Strategy phases in relation to Spheres

Besides the 3 phases there are 3 fundamental strategy levels:

1. *Corporate Strategy:* Defines where the corporation wants to compete in the industry value chain, and the resource allocation and asset configuration.
2. *Business Unit (BU) Strategy:* Addresses how the organisation is competing in an industry or market, and what it takes to win.
3. *Functional Strategy:* Relates to how core functions are supporting the overall corporate and BU strategies, and how to create functional competitive advantages.

Table: Strategy Levels

Within the *Strategy Sphere* we consequently have established 4 *Dimensions* covering all aspects of *Strategy Design*:

- *Dimension 2.1: Industry Value Chain*. The company placement and configuration in the overall Industry Value Chain.
- *Dimension 2.2: Battlefields*. The areas, segments and technologies where the company chooses to compete.
- *Dimension 2.3: Value Proposition*. The offerings, channels, structures and prices, which are delivered to customers.
- *Dimension 2.4: Competitive Advantages*. The company capability gap and targeted advantages.