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Norwegian School of Management

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Transforming Value Creation:

Implications for Business Models and Business Practices

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Business Model

- **Describes how a company earns returns for its owners - opening up the “black box”**
- **Includes a description of actors (customers, suppliers, competitors, complementors) resources and activities**

Who gets paid by whom for what?

We have entered the Knowledge and Network economy

Value creation

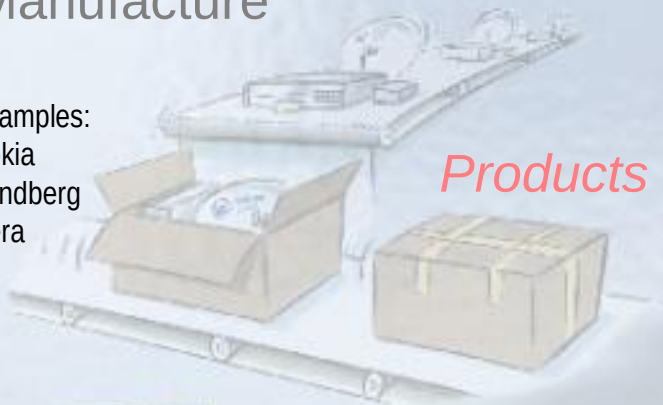
Solve Problems

Examples:
DNV
McKinsey
Aker Kværner (engineering)

Competencies

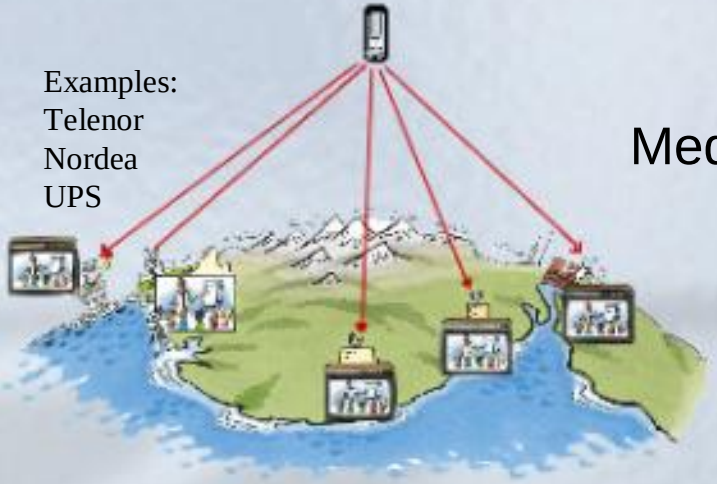
Manufacture

Examples:
Nokia
Tandberg
Nera



Products

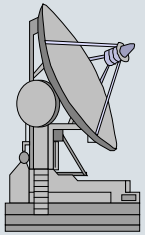
Examples:
Telenor
Nordea
UPS



Mediate

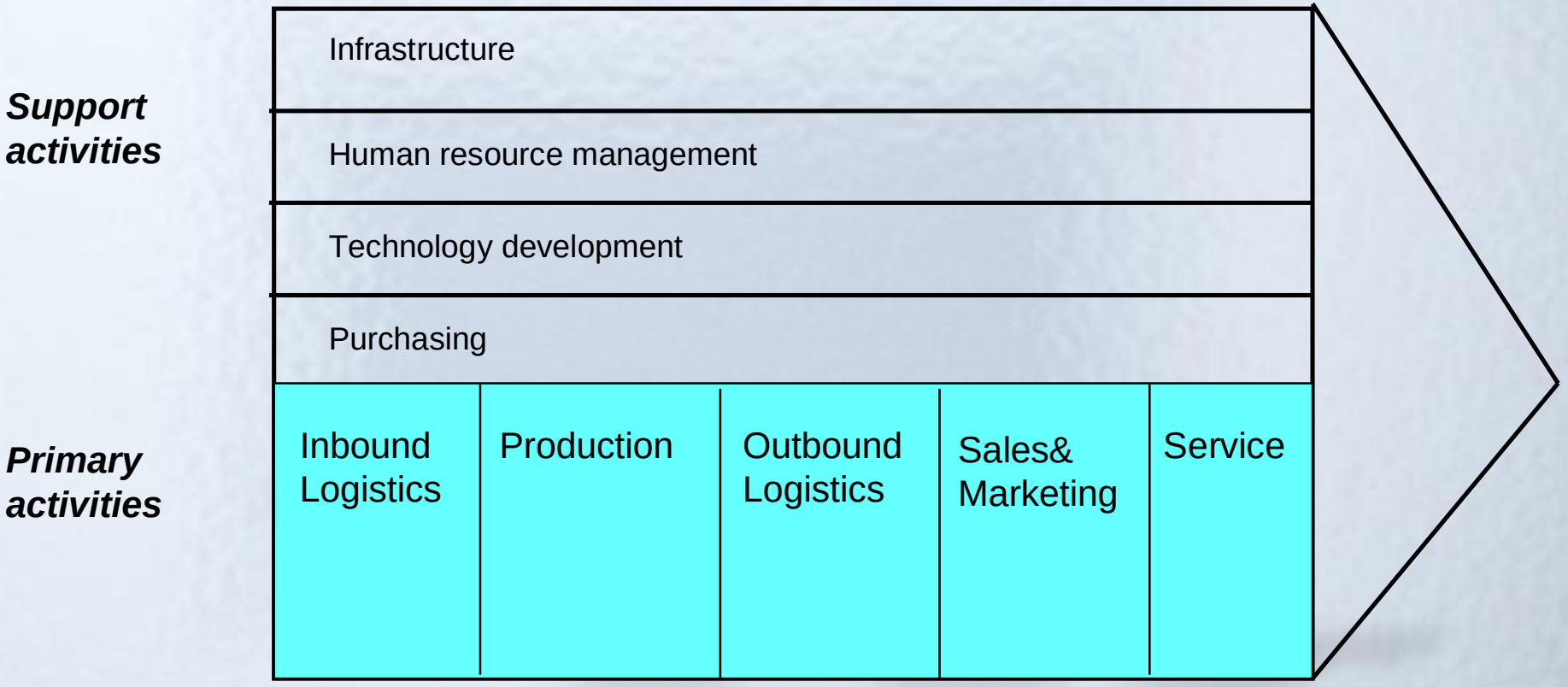
Connections to the other customers

Creating and combining

	Chain	Shop	Network
Type of firm	 *Manufacturing*	 *Consulting, oil-exploration,hospitals*	  *Bank, telecom,airlines*
Value elements managed	**Components**	**Competencies**	**Connections**
Deliver-able	***Product***	***Solution***	***Connectivity***

The Value Configurations

The Value Chain



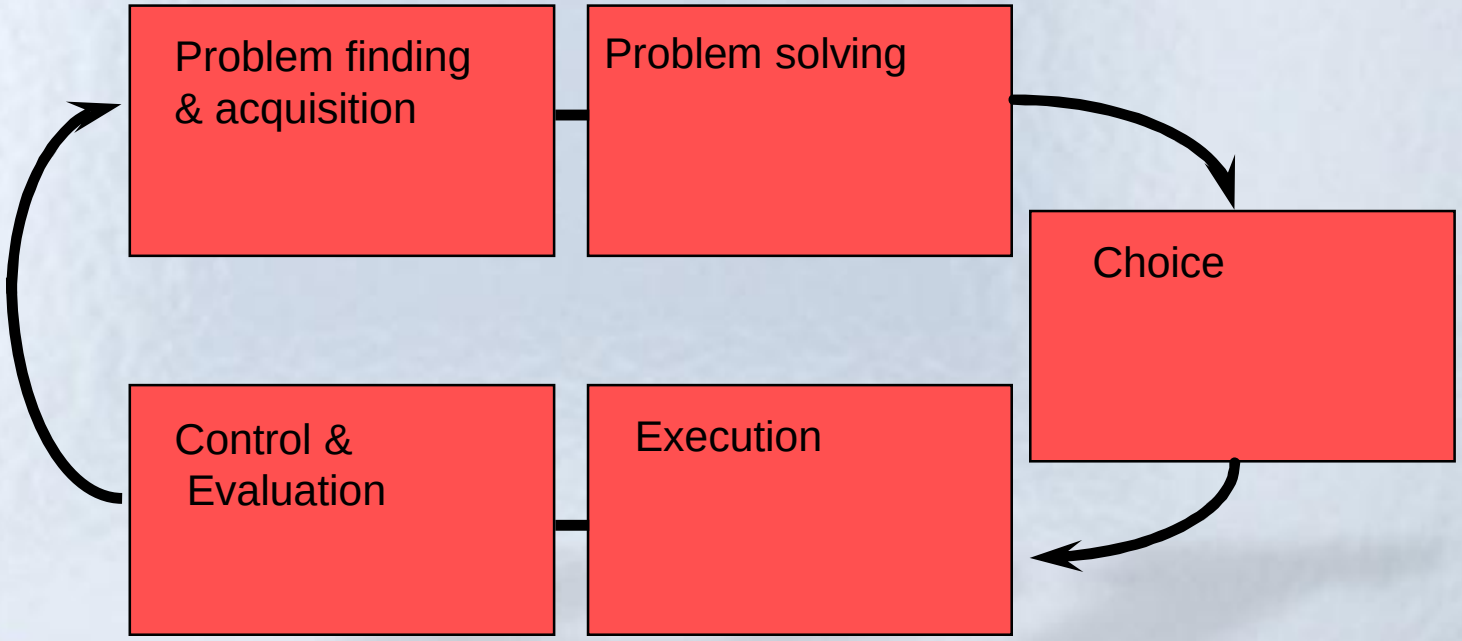
Porter, Free Press 1985

The Value Shop

Support activities

Infrastructure		
Human Resource Management		
Technology development		
Procurement		

Primary activities



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Stabell and Fjeldstad, SMJ1998

Value Shop Performance drivers

- **Scale is negatively related to productivity**
- **Scale increases competence mobilization**
- **Reputation drives access to projects and people**
  - Reputation is related to (prospective) customers learning about the quality of firm resources.
  - Information assymetry leads to successfull projects as signals of the quality of the competencies that can be mobilized in the solution of the clients problem
- **Learning (experience) both at project and firm level**
- **Primary inter-activity relationships are spiraling and cyclical**
  - Intelligence – Design – Choice (Simon): Sprialling cycles of Diagnosis – Alternative Generation and Selection at all levels of problem solving ”Wheels within Wheels”
- **Cost is a quality aspect of the design**

Value Shop Support Technologies

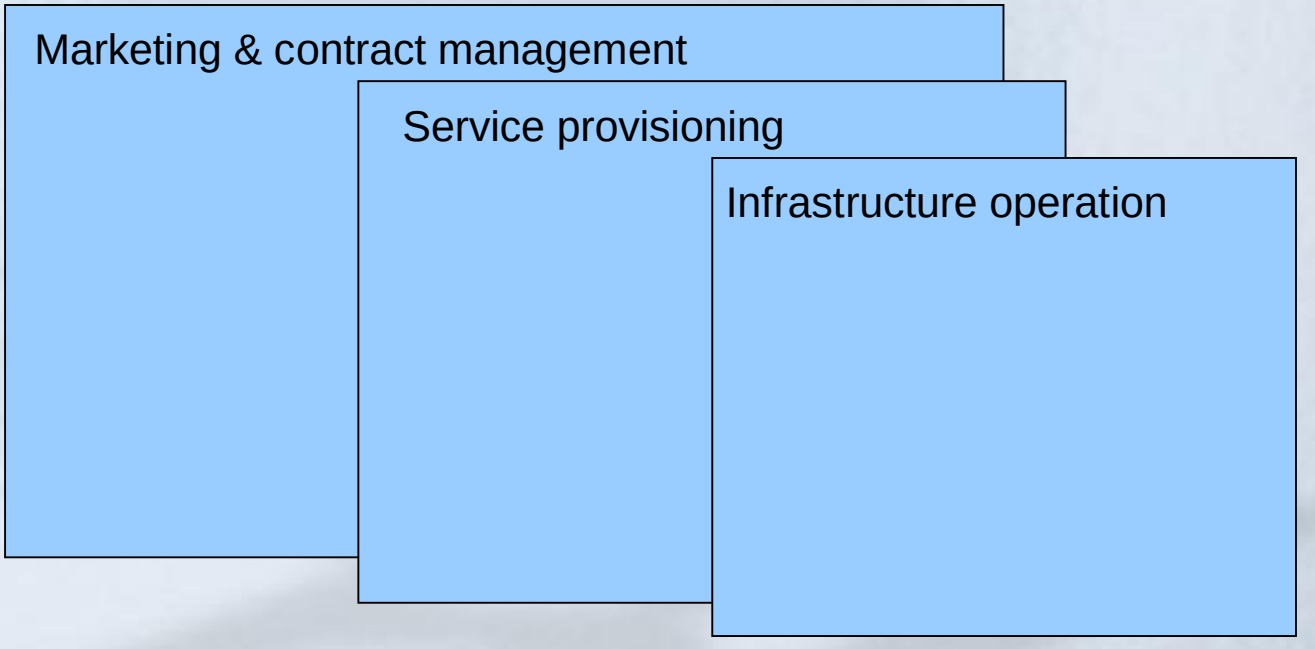
- Diagnostic equipment: ”Better microscopes”
- Design support: ”Better CAD software and simulation”
- Group support: ”Better team-work” Collaborative technologies – knowledge management
- Project support: ”Microsoft Project”

The Value Network

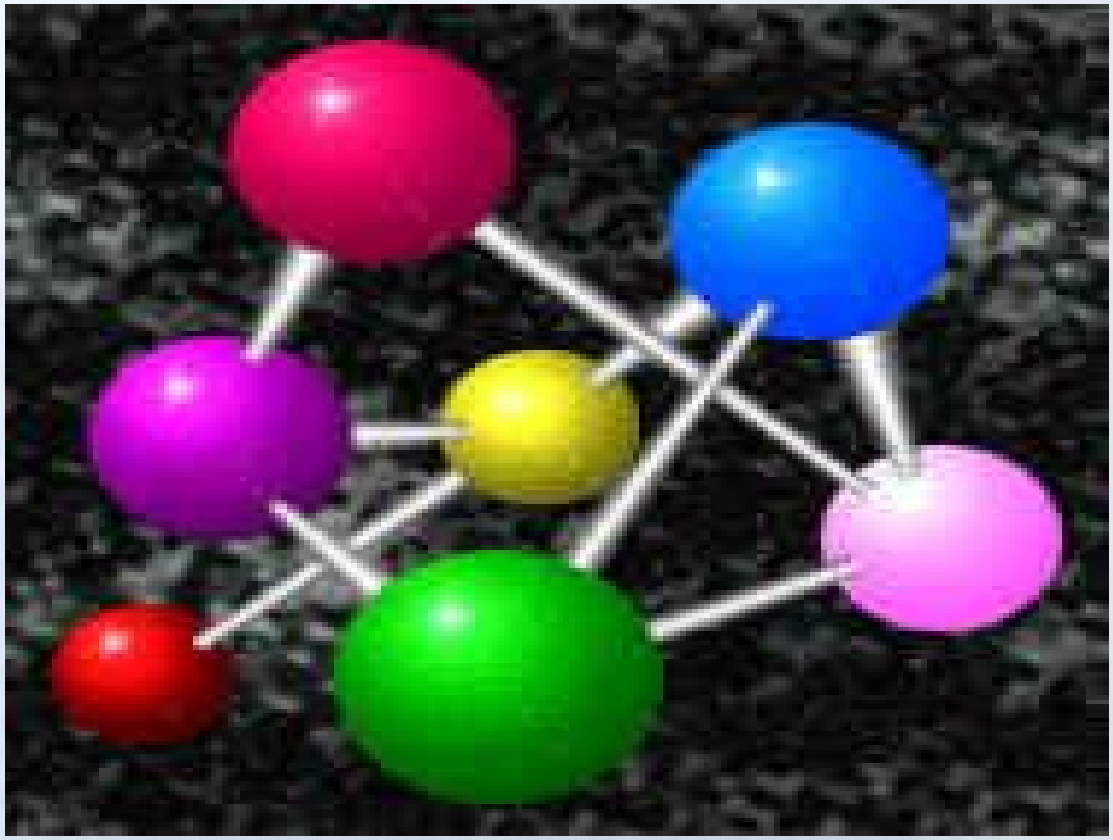
Support activities

Firm Infrastructure
Human Resource Management
Technology development
Procurement

Primary activities



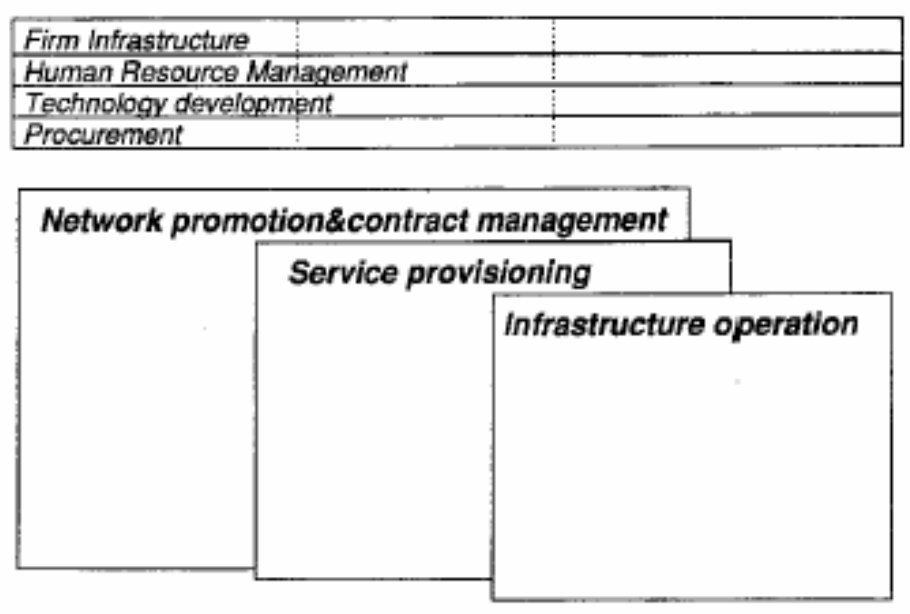
Stabell and Fjeldstad, SMJ1998



Supports customer (*trans-)*actions that are embedded in networks of relationships.....

Creating value with the Value Network

”Modern society is characterized by a complex set of actual and potential relationships between actors: people, and organizations. Linking, and thus value creation, [..] is the organization and facilitation of exchange between customers. [..]
Mediation services [..] represent the extreme case of [Network externalities] because the dependency among customers is the main product delivered. [..] in value networks, the other customers are the key part of the product. The services [..] mainly deliver the customers’ opportunities to exercise those dependencies. ***Size*** *and* ***composition*** *of the customer base are therefore the critical driver of value in the value network.”*



Source: Stabell and Fjeldstad, SMJ 1998

The Value Systems

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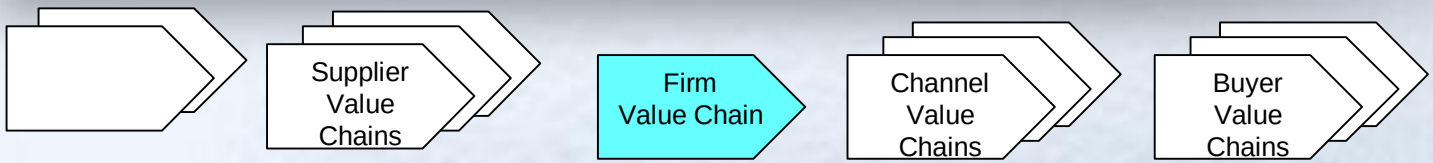
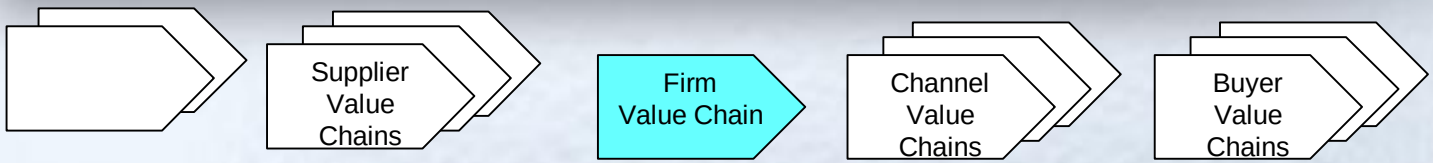
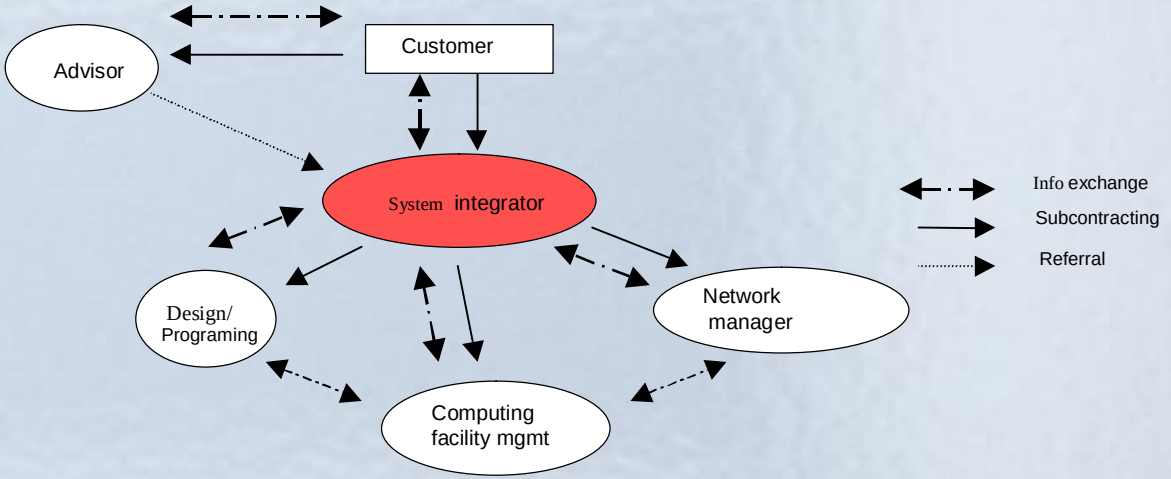
Sequential

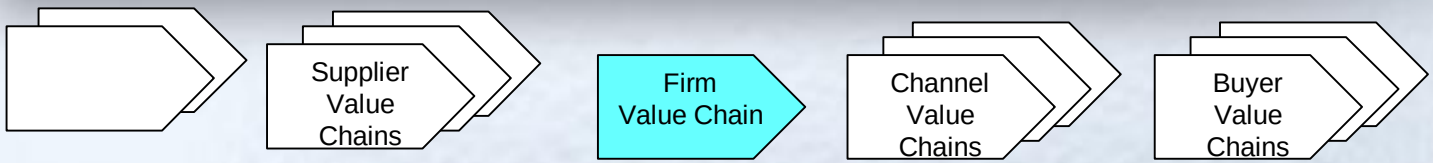

Supplier
Value
Chains
Firm
Value Chain
Channel
Value
Chains
Buyer
Value
Chains

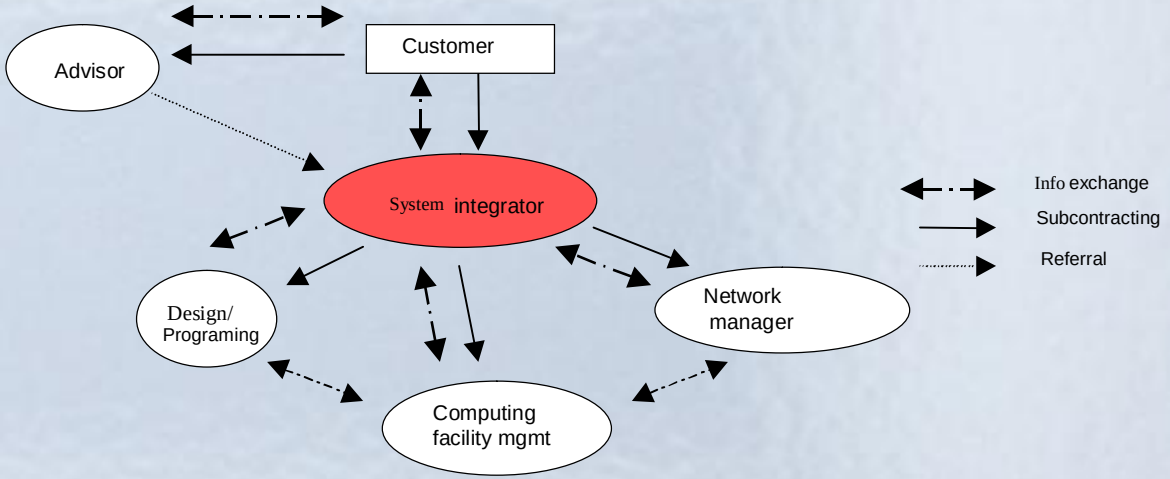
Sequential, iterative

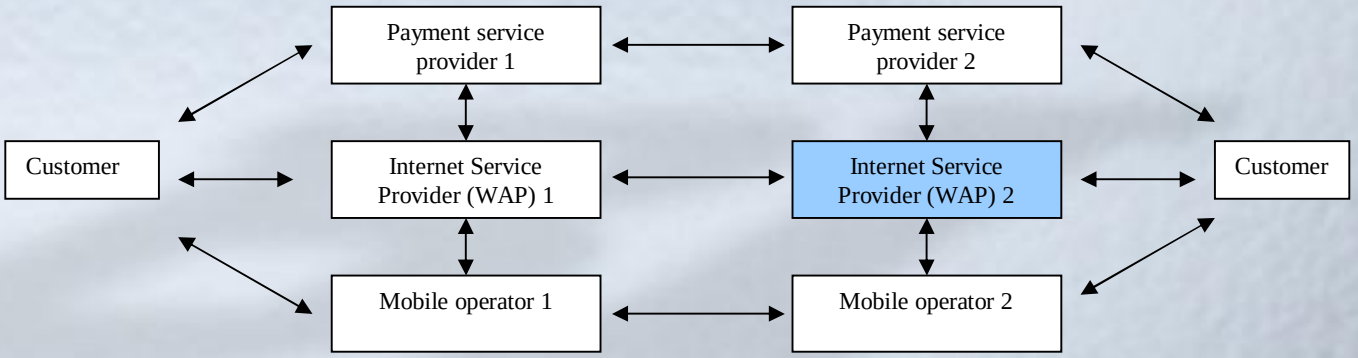




Sequential, iterative and layered







Implications for Business Models

The Segments

The Strategy Trade-offs

- **Product differentiation vs. cost (Chains)**
  - Closer adaptation to customer needs creates higher value - “destroys” cost economies of scale
  - Managing trade-offs: Product variation and flow constrained by scale and capacity utilization
- **Knowledge depth vs. breath (Shops)**
  - General practitioner can solve a broad variety of problems - specialist are required for complex cases
  - Managing trade-offs: Specialization and integration increase value constrained by knowledge leverage
- **Network scope vs. service range (Networks)**
  - Value both from connectivity and conductivity
  - Managing trade-offs: Sacrificing conductivity increases potential connectivity constrained by capacity as a customer benefit

See: Fjeldstad and Haanæs 2001

The Organizational Processes

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Supply chain management to manage the flow of components through the value chain

Knowledge and relationship management to mobilize case dependent competencies and activities under high uncertainty and information asymmetry

Customer Community Management

	Business	Individual	Government
Business	B2B	I2B	G2B
Individual	B2I	I2I	G2I
Government	B2G	I2G	G2G

To link actually and potentially inter-dependent customers

Chains, Shops and Networks: Strategic differences

	Manufacturing	**Problem solving**	**Intermediation**
Activities	Value Chain	Value Shop	Value Network
Technology	Long-linked	Intensive	Mediating
Manage	Products	Projects	Networks
Create and combine	Components	Competencies	Connections
Perceptual real-estate	Brand	Reputation	Netspectations
Scale gives	Cost efficiency	Competence mobilization	Connectivity and cost efficiency
Maximize….	Capacity utilization	Knowledge leverage	Network yield
…by optimizing	component flow vs. product variation	knowledge depth vs. knowledge breadth	Connectivity vs. Conductivity Who can be reached and what can be carried

Transformations?

- **Most needs can be met by either of the models**
- **There are both company and industry level transformations**
- ***Industrial revolution:* Shop to chain transformation**
- ***The network society*: Transaction organizations taking over internal logistic, information and financial flows**
- ***The knowledge society:* Global division of labor - Chain back to shop transformations**

Business level transformations

- Transform knowledge into products
- Transform network services into products – intelligent terminals replacing network services
- Network the customers – products as service enablers of inter-customer relations
- Sell knowledge about how to use products

Where are the limits to *k* and *n*-business?

In what we can understand
and in what we can connect.