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Finance Starter Kit: Embrace Business Model Innovation

Best practices and first steps

Embrace business model innovation

Nearly two decades ago, the arrival of software-as-a-service (SaaS) began upending traditional business models. A multitude of upstart cloud providers showed that they could deliver software over the internet, instead of installing it on a physical server at the customer's premises. For customers, the appeal was in avoiding big investments in equipment and IT support, instead letting them take advantage of "pay as you go" monthly subscription payments. For software providers, the SaaS business model introduced new ways to capitalize on recurring, predictable revenue—while retaining customer loyalty with access to the latest technologies and sustainable value.

Today, everything from music (Spotify) to movies (Netflix) to fitness (Peloton) to equipment monitoring and preventative maintenance (John Deere, Boeing) can be delivered "as a service." In the wake of the global COVID-19 pandemic, companies needed to find new ways to do business to survive; many of them pivoted quickly, responding to their customers' needs in new ways. In an October 2020 survey, 62 percent of all companies said they've implemented solutions to manage an increased demand for online interactions and services. And more than half of respondents (53 percent) believe the change will stick after the pandemic subsides, as consumers and customers settle into the "next normal."

The global economic upheaval has caused revenue shortfalls in many industries, and a number of companies have started to pull back on their innovation investments to save cash. But is this the best strategy? McKinsey & Company analysis found that "companies that invest in innovation during a crisis outperform the competition on market capitalization by 10 percent; investing in innovation after a crisis gives them a 30 percent advantage."

But in a time when cash is limited for most companies, how do you make sure your innovation investments will pay off? Here are some recommended best practices to help improve your chances of success.

Five best practices for business model innovation

1 Rethink what your target customers want

Research your potential customers and listen to what they have to say. You can collect feedback via social listening, customer community groups, surveys, events—anywhere the “voice of the customer” is prominent. You might discover that your customers don’t want to go to a store or restaurant; instead, they want everything delivered. Retailers might need to revamp their ecommerce channels because people want to buy online. Or you might learn that home renovations are booming because of low interest rates on borrowing.

Service companies are productizing their services to be fixed rather than time-based. Even B2B companies like airplane manufacturers are turning to as-a-service offerings: embedding software into their jet engines, updating that software, monitoring the engines continuously via Internet of Things (IoT) sensors, predicting when a part might fail (before it does), and scheduling maintenance in advance.

Think about what would make your customers’ lives as easy as possible. Do your prospects want to own assets? Be responsible for maintenance and upkeep? Or would they prefer to pay a monthly fee for you to take care of everything? Would they rather pay for ownership, or value?

2 Analyze various business models

Companies are often reluctant to shift business models due to the potential impacts on short-term revenue. Scenario modeling and financial planning can help. Analyze the potential cost of the shift vs. revenue potential over time; you can model different scenarios for multiple offerings, market conditions, or any other number of drivers. You can pivot from forecasting new sales to predicting churn—a key metric for any business that depends on customer renewals. And you can use Monte Carlo simulations (a mathematical technique) to predict which outcomes are the most, and least, likely.

Scenario planning can help you determine which investments are most likely to drive continuous growth over time. It can also help you align with company goals, mitigate risk, and understand the workforce skills and resources you need to support your new business model.

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3 Collaborate throughout the innovation life cycle

McKinsey & Company found that a mere 6 percent of CEOs were satisfied with their company's innovation efforts. One of the top reasons is that "companies too often follow a traditional, siloed approach that creates blind spots, handoff issues, and inefficiencies. All of these scenarios have a significant impact on product revenue, profitability, and ROI."

To keep your innovation investments from meeting the same fate, you must break down silos and create a process that involves multiple stakeholders—design, engineering, sales, marketing, finance, HR, and other functions—to seed the innovation pipeline with the right ideas at the right time. It's not enough to innovate a product or service; you also need to define the offer. What are the services we want to bundle? What are the pricing options? How will we market and sell our new offerings? How do we build a pipeline of talent and investment to support our new business model over time?

One of the most effective ways to collaborate is with a connected cloud that breaks down these silos. Integrated cloud suites can help you develop and commercialize new services, find and assign the right resources, track the project, keep the project on budget, and avoid scope creep.

4 Design for customer success

In an "as-a-service" world, customer satisfaction is your biggest predictor of future revenue. If your customers aren't happy, they won't renew, which is money lost. Not only do you need to design a great offering that makes their lives easier, you also need to make it easy to buy, change, and renew their subscriptions—and provide delivery when the customer wants it.

Often, this means giving customers self-service options, so they can manage their subscriptions online. For more complex B2B services, integrated cloud suites can help you configure an offer, price it, provide a quote, and simplify contract negotiations. The goal is to make the entire experience delightful and seamless, so your customers will be happy to renew at the end of their term.

Five best practices for business model innovation

5 Measure outcomes and respond quickly

Changing your business model also means changing the way you track and measure success. Traditional lead-to-cash flow is configured differently. You'll be billing customers in a different way (monthly or yearly vs. one-time purchases) and recognizing revenue differently. This is where finance needs to collaborate closely with line-of-business leaders to keep them informed about what's working well—and what isn't—so that business leaders can quickly change course.

KPIs for a new business model might include annual recurring revenue (ARR), customer churn, renewals, and customer lifetime value. It's important for finance teams to continually monitor these KPIs, forecast potential trends, analyze profitability, and work with business leaders to adjust offerings that aren't performing well—or even evaluate other business models that might be more successful.

Steps to get started

1. Invest in the right technology

In most cases, on-premises legacy systems don't have the scalability or flexibility to spin up multiple, complex new offerings quickly and efficiently. Cloud suites are helping innovators adapt to changing market conditions—delivering the tools and visibility to quickly innovate, develop, configure, and evolve new offerings in response to customer demands.

2. Plan with confidence

Run financial scenarios to gauge the potential impact on revenue and stock price. Develop contingency plans to make up for any short-term revenue drops as your new services ramp up over time.

3. Stay agile

Outline a plan for continual monitoring and frequent adjustments. In the "as-a-service" world, the product isn't "set it and forget it." To reduce churn and ensure future revenue, you'll need to keep constant track of customer usage, renewals, and other KPIs—and you need to be ready to change direction quickly if key indicators start flashing red.

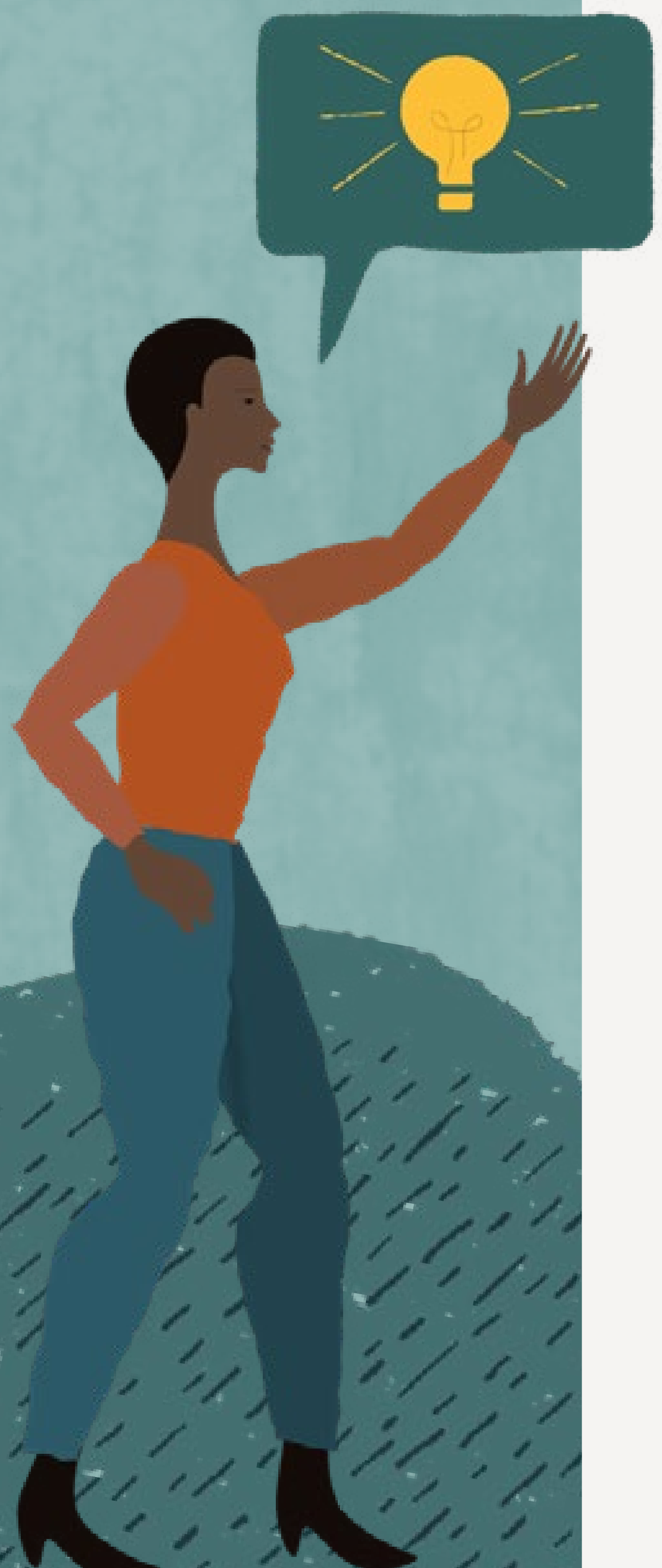
Quick reminders

Do:

- ✓ Embrace digital ways of doing business
- ✓ Listen to customer input
- ✓ Balance short- and long-term growth
- ✓ Continually monitor KPIs

Don’t:

- ✗ Rush to market with insufficient analysis
- ✗ Be dissuaded by short-term revenue impact
- ✗ Let silos build up between teams
- ✗ Wait until year-end to measure success



Looking forward

CFOs want to move on new business models that will deliver ROI, not waste resources on offerings that don't return their investments. They want to capture what customers want, and get it to market before their competitors. It's all about the right ideas, at the right time, on budget.

Oracle can help provide a path to business innovation. Not that long ago, we changed our whole business model from a vendor of software licenses to a provider of software-as-a-service. We've spoken with hundreds of customers asking how we navigated the change, and we'd be happy to help you learn from our experience.

Visit our site to learn more about embracing business model innovation and other big moves finance should make now, or request a demo.

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