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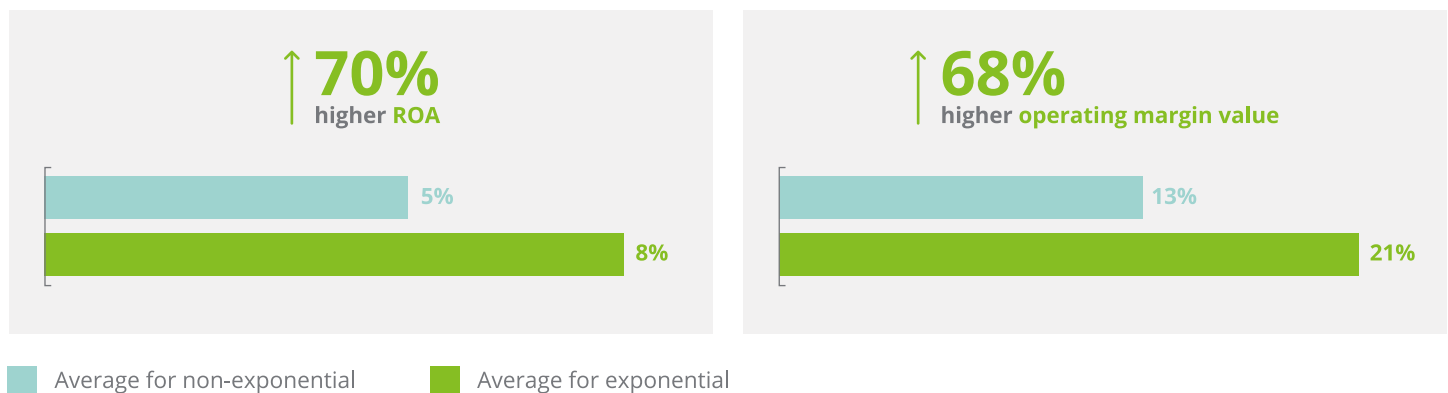


Business model innovation

When and how to evolve your
business model to improve
resiliency and maximize value

Driving business resiliency and growth

2023 was the year of “efficiency.” Industries from big tech to health care focused on cutting costs and improving financial sustainability in the face of elevated interest rates, continued supply and demand constraints, and other market uncertainties.¹ Wringing marginal performance improvements out of existing business models, however, will not be sufficient for long-term resiliency and growth. 2024, therefore, needs to be the year of “evolution.” Companies that do business model innovation right have proven to drive resiliency and to create shareholder value. On average, those organizations with a strong capacity to change have 70% higher return on assets (ROA) and 68% higher operating margin value than average counterparts in their respective markets:²



Why focus on ‘business model’?

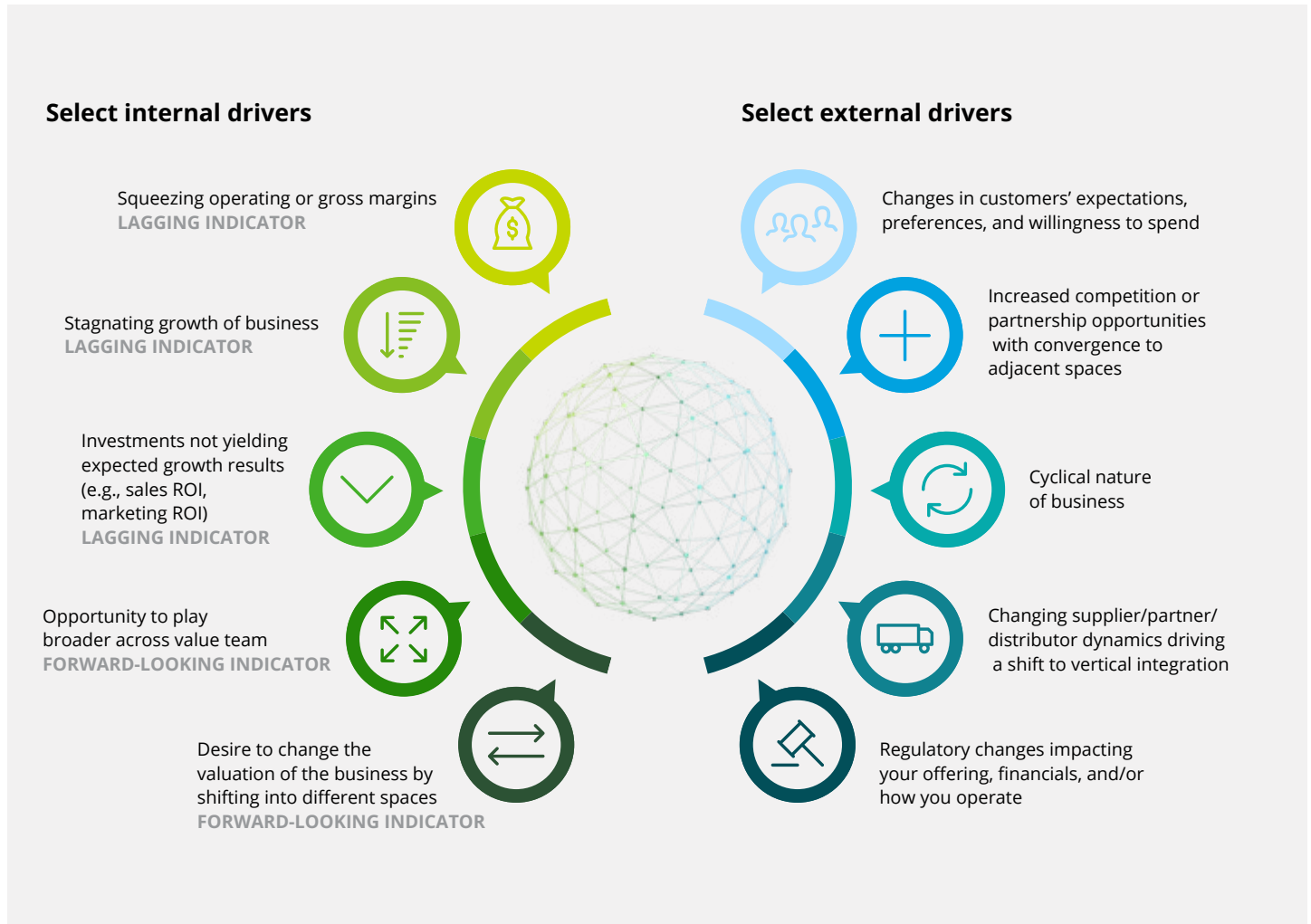
The term business model is widely used, but tends toward jargon due to a wide range of, and frequently academic-sounding, definitions.³ In our view, a “business model” can be defined as how an organization positions itself to create, deliver, and capture value. It consists of three core elements that are mutually reinforcing: the value proposition, differentiating capabilities, and monetization model.

- **Value proposition:** The “value proposition” is ultimately how an enterprise creates value for its customers, by delivering an offering designed to meet a targeted set of customer needs.
- **Differentiating capabilities:** Underpinning a specific value proposition, an enterprise needs to establish a set of critical capabilities (“differentiating capabilities”) to optimize its performance in line with the value proposition being delivered. For example, if an enterprise aims to position itself toward customers with a more value-oriented product portfolio compared to other market players, then best-in-class operational capabilities will be critical. In contrast, a company aiming to bring a more personalized customer experience will likely need to invest more in customer insights capabilities to gain a deep understanding of individual customers (from demographics to behavioral preferences).
- **Monetization model:** Finally, the “monetization model” needs to align to the value proposition, defining in what way(s) the enterprise will make money from its offering.

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When to evolve your business model

There is no single indicator that signifies the need to evolve an enterprise's business model. Rather, an enterprise will often experience shifts across multiple dimensions (internal and external) at once, creating the impetus to evolve.



When these dimensions start to affect customers, businesses should reevaluate their business model to see if the value proposition, capabilities, or monetization model need to evolve to better meet customer needs. Even when a business is growing, it is important to continuously monitor internal and external drivers to stay ahead of the market and to continue to drive long-term, resilient growth.

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How to evolve your business model

Evolving your business model successfully requires a clear strategy—with an aligned vision that cascades to your growth priorities, value proposition, monetization model, capabilities, and ultimately to your management systems:

- 1** Reevaluate the definition of your market and think through: Which customer segments do you want to serve? What are your chosen customer segments' needs and buying preferences/behaviors?
- 2** Rethink the value proposition you are delivering to your customers: As customers' needs and expectations evolve, how are you creating and delivering continued value for customers?
- 3** Define your monetization model for how you will generate revenue from creating value to customers: How will you price your offering toward your customers? Will you charge a fee per transaction or explore other models, like subscription models, freemium models, and the monetization of data?
- 4** In support of your business model, reconsider which capabilities and competencies (including assets, ways of working, processes, data, and systems) you need to support your value proposition. Are there capability areas in which you need to increase or reduce investment to better service customer needs? Which capabilities do you need to build in-house versus via external partnerships?
- 5** Align your management structures (including organizational structure, culture, norms, incentives, and key performance indicators) to your market positioning and value proposition to drive the right attitudes and behaviors. Is your organization internally set up to successfully deliver on its business model?

Evolving your business model is not an easy decision as it implies potentially shifting what you sell to whom, where, and how—with important implications to your organization. However, doing so successfully can drive resilient growth with significant value uptake for both your organization and your customers.

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Endnotes

1. Mauricio Garza, Raed Masoud, and Austin Buit, [2023 MarginPLUS Survey: Transforming through disruption](#), Deloitte, March 2023.
2. Monitor Deloitte, [The exponential enterprise: Fortifying the ability to win through the capacity for change](#), 2021.
3. Slávik Štefan and Bednár Richard, [“Analysis of business models.”](#) Journal of Competitiveness 6, no. 4, (December 2014): pp. 19–40.



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