



BUSINESS NETWORK TRANSFORMATION

Strategies to Reconfigure
Your Business Relationships
for Competitive Advantage

EDITOR **JEFFREY WORD**

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Business Relationships for
Competitive Advantage**



Jeffrey Word



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Business Network Transformation

Acknowledgments

Every book begins with a story (or in this case, hundreds of stories), so to understand how this book got into your hands, I'd like to start its story from the beginning.

The genesis of this book can be traced back to hundreds of conversations that have occurred between SAP and the customers and partners in its business network over the past several years. SAP has a very unique vantage point into the strategy-making process at over 80,000 companies around the world. Even more importantly, SAP has customers in every link of the value chain, in every industry, everywhere in the world, which provides them with a rare perspective on the types of things that are happening *between* companies. This position gives SAP a unique vantage point to spot emerging trends in business dynamics and allows them to work with their customers to design process-centric software to enable these new ways of doing business.

It is from this perspective that SAP's co-CEOs, Henning Kagermann and Léo Apotheker, started to formulate a concept that could explain the proliferation of collaborative processes and the disintegration of traditional value chains that they were seeing in SAP's customer base. It was also at this time that SAP began its own BNT journey and was prescient enough to apply its experiences to the development of the core BNT theory—after all, SAP is a very large, global corporation that operates in a highly competitive marketplace. So, in the truest spirit of BNT, Henning and Léo funded a team to coordinate a group of the most brilliant minds in business to help

investigate and explain these new processes and strategies that SAP was seeing in its customers.

The end goal of the BNT project was always to “give away” the knowledge that was uncovered through the course of the project in order to make it available to the widest audience possible. It wasn’t until later in the project that the idea for this book emerged as the best way to convey the overall concept to a large audience. In this way, SAP could help all of its customers by advancing the level of understanding of BNT and making it easily accessible to everyone. On behalf of the contributors to this book and the companies who benefit from the knowledge produced by these efforts, I would like to sincerely thank Henning and Léo for their support and guidance in making BNT an approachable, actionable, and valuable concept for businesspeople around the world.

In a sense, the production of this book on business network transformation was a test bed for all of the best practices and learnings from our research into BNT about how to orchestrate a collaborative team of customers and partners to generate a new kind of value. This book exemplifies all of the best qualities and outcomes that can be achieved from building a collaborative network of aligned resources to achieve a goal. Therefore, there is a large and varied network of individuals who helped make this book a reality. A small team at SAP coordinated hundreds of people, from the thought leaders who did the research and wrote the chapters, to the companies who shared their stories, to the publisher who got this book into your hands. It would be difficult to thank them all individually, but I’d like to extend my deepest gratitude to the following people.

First, to the team at SAP who has worked tirelessly over the past several years to orchestrate such a unique and groundbreaking approach to advancing thought leadership for the benefit of their customers: Peter Graf, Barbara Holzapfel, Amit Sinha, Kijoon Lee, Don Bulmer, Peter Auditore, Carly Cooper, Stacy Comes, Holly Sharp, and Kevin Cox.

This work could never have been completed without the cooperation of companies who were willing to talk with us about their groundbreaking new strategies for BNT. Their stories form the fabric of BNT and are the key element in the book to making BNT “real.” Again, there are too many to mention, but I would especially like to thank the following companies for their cooperation and openness with the BNT book team: Nokia, DHL, Disney, TSMC, NVIDIA, Novartis, Hugo Boss, Harley Davidson, Procter & Gamble, Coca-Cola Enterprises, Asian Paints, Tesco, Nike, Lionsgate, Colgate, Intel, RIM, Deutsche Bahn, Ogilvy & Mather, Sports Chalet, and many others.

The contributors have been phenomenal collaborators and have shown me how all of the best qualities of a researcher, teacher, and businessman manifest themselves into a “thought leader.” I owe a great debt of gratitude to all the contributors individually and as a group, and it has been a great personal and professional pleasure to work with them on this project. I owe a special thanks to Geoff and Philip—you’ve both been wise and thoughtful palmers guiding me on this journey. I would also like to commend the contributors for their instant agreement to donate all of the royalties from this work to the United Nations World Food Programme. Hopefully, we’ll feed some hungry stomachs as well as hungry minds.

I’d also like to express my gratitude to John Wiley & Sons. I’ve been extremely fortunate to work with great professionals in my book-writing adventures. The team from Wiley (Jossey-Bass) has shown me again that given the right set of circumstances, even a 200-year-old company can act like a startup.

Finally, no book is written purely during “work hours” and family is often the unintended “collateral damage” when deadlines are looming. This book came together at a very fast pace and involved a lot of extra hours of time away from family. So I’d like to especially thank my wife and children for their understanding and empathy during the compilation of this book.

Introduction

Jeffrey Word, Editor

*Director, Center for Business Network Transformation &
Vice President of Product Strategy, SAP AG
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This book is about the evolving nature of global business and the ways that a company's network of relationships (with suppliers, customers, and other partners) is being reconfigured to derive competitive advantage and increased profitability.

Business network transformation (BNT) is a true market movement and isn't something that can be ignored. As the pace of business change accelerates and businesses become increasingly connected, business networks provide the new source of competitive advantage for companies. We are now witnessing a global transformation into dynamic and orchestrated business networks in which each entity is focused on its key differentiation while collaborating with others in its network to deliver higher shared customer value, speed of innovation, and cost benefits.

As companies specialize, they become better at what they do best and focus on achieving higher returns on capital. Companies rely on partners not only to take on non-core activities so that resources can be funneled into innovative activities, but also to collaborate with them for new product development and new ways to enter attractive markets. This requires companies to build new competencies in managing collaborative relationships, with well-understood process handoffs, information access, and service-level

agreements; appropriate checks and balances on product quality and brand promises made to customers; and visibility into risk and performance across the business network.

Nowadays, companies don't innovate, manufacture, market, or sell alone. We all work in concert with other players in our business network of design partners, suppliers, channel partners, outsourced vendors, co-innovators, customers—and even competitors. It isn't hard to see that companies have become more and more dependent on their partner networks over the past several years. In some industries these networks are quite apparent; in others, they are rather shady. The most obvious evidence of the influence of these globally interconnected networks can be seen by the instantaneous spread of the financial crisis in late 2008. The spider's web of credit-swaps, loan guarantees, and hedge funds unraveled at lightning speed in a globally distributed network of banks, pension funds, mortgage companies, and governments, impacting nearly every financial institution on the planet instantly.

Globalization and deregulation are empowering companies to discover innovation and talent from all corners of the world to enter emerging high-growth markets that require new partnerships. The rising power of customers is driving companies to look outside their own four walls for new ways to serve the end customer. Companies in the value chain must act as one entity to serve the end customer who is armed with more information and has more choices than ever before.

Competitive pressures are squeezing margins and commoditizing new innovations more rapidly, requiring companies to collaborate with each other for faster innovation and out-tasking to specialists in the value chain for lower cost structures. And last, advances and proliferation in IT are enabling work to be rapidly transferred between geographically separated companies in a connected world.

Advances in communication and collaboration technologies have enabled companies to leverage larger business networks more effectively. The Internet has opened up the storefront of every busi-

ness to global commerce. BNT cannot be contemplated without the support of a robust IT infrastructure that enables rapid change at low costs, process-wide visibility, and secure information-sharing for all network participants.

But this global dispersion of work, enabled by technology, has a high price as well. These newer, unstructured collaboration technologies must work seamlessly with the earlier, structured IT investments in operational efficiency, such as ERP systems. The cost of integration and rapid change is quite high for a company living in the twenty-first century, but relying on a twentieth-century IT platform makes the task of transforming their business network quite difficult.

There are also several macroeconomic trends that have emerged as a result of the globalization and outsourcing movements of the past several years that require companies to manage their partner relationships more effectively. But, despite the advances in technology and trends in globalization, very few companies have truly mastered how to succeed in a networked world, not just survive.

This book is the product of the collaborative efforts of some of the most recognized thought leaders in business today to explore and analyze BNT. Over the past several years, the emerging concepts around business network transformation have been studied from various angles by the contributors to this book with a clear focus on understanding *what* is happening to traditional value chains, *how* companies are impacted by the transformation, *who* is successfully adapting and thriving in the new environment, and *where* this evolution is headed.

Through a bit of luck and circumstance, in 2008, we were able to gather a diverse group of business experts and coalesce around the overall concept of BNT. Although the different contributors may have started out with what seemed to be unrelated perspectives on emerging phenomena in the business world, it quickly became evident that they were actually looking at the same megatrend, only from slightly different angles.

We learned very early in our research that it is extremely difficult, if not impossible, to categorize BNT as one specific “thing.” Rather, the concept of business network transformation is better described as an umbrella framework to help understand how the underlying themes interact and what areas of your business are affected. To help you grasp both the macro and micro concepts of BNT, we have structured the book so that we begin with the strategic “big picture” of BNT and provide some concrete examples of BNT in action, and then we dive into more function-oriented chapters to explore BNT from several different angles. Finally, we close with some horizontal concepts that focus on the critical resources and road map for a successful BNT strategy.

Chapter 1. Transforming Your Business Network					
Chapter 2. Business Network Transformation in Action					
Chapter 3. Creating Superior Customer Value in a Connected World	Chapter 4. Shrinking Core, Expanding Periphery	Chapter 5. Product Leadership in a Network Era	Chapter 6. Driving Collaborative Success in Global Process Networks	Chapter 7. Operational Excellence: The New Lever for Profitability and Competitive Advantage in a Networked World	Chapter 8. Constructing and Managing Innovation in Business Networks
Chapter 9. The Value of Trust in Business Networks					
Chapter 10. The Role of IT in Business Network Transformation					
Chapter 11. Road Map to Transform Your Business Network					

We hope that this book helps you understand not only how business network transformation manifests itself in your industry, but also how to gain some very pragmatic insights into using BNT as a strategic lever to improve your company's competitive advantage and profitability. It's not a question of *if* BNT is going to happen to you; the real questions are *when* it is going to change the competitive dynamics in your industry and *how powerful* the impact on your company will be. Hopefully, through the insights gained from this book, you'll be able to answer those important questions and develop a strategy to take advantage of the opportunities that BNT presents to your company.

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Chapter 1

Transforming Your Business Network

Philip Lay and Geoffrey Moore

Managing Directors, TCG Advisors

Recently, we have been conducting research into an emerging business phenomenon that we are referring to as *business network transformation* (BNT). We believe that BNT is a descriptive framework that can help executives to focus on the dynamics of business networks in their markets. At minimum, these dynamics constitute environmental forces that must be taken into account by every company, regardless of size or industry position. For more powerful companies, they also represent a source of leverage that can be used for competitive advantage. Finally, for leading companies that are willing to pursue high-risk, high-reward strategies for growth, they represent untapped sources of innovation and competitive performance that can shift the balance of power in an industry under change.

Setting the Context

Three major trends in business dynamics today are setting the context for a new focus on business network transformation.

1. The dominant thread of the BNT concept is driven by globalization. This leads immediately to commoditization, providing

better prices for consumers in developed economies, and laying the foundation for selling back into developing economies once their level of affluence rises. Commoditization, however, threatens established business models and profit margins and thus creates a Darwinian forcing-function for differentiation in order to escape from the lowering price trend of the marketplace. Differentiation, in turn, implies specialization, which involves leaving certain tasks to other companies while focusing resources on tasks which lead to differentiation. Hence the rising relevance of business networks under the relentless pressure on each participant to differentiate in a global economy.

2. Networks serve to help both on the context and the core¹ sides of the equation. On the *context* side, they enable outsourcing of work that brings no differentiation. However, much of this work is mission-critical, and the need to insure the outsourcer against quality or performance failures is paramount. Unfortunately, in the past few decades since service-level agreements (SLAs) were first implemented, they have not always kept pace with the demands of the client company's business. Sometimes this has been because the client company commissioned mission-critical services from the lowest bidder, or because they simply handed off a broken process for someone else to fix without an agreed set of expectations regarding what the process or service levels would need to look like, or because the SLAs have been insufficiently thought-out or automated. Hence the need today for SLAs based on meaningful performance criteria, and the real-time systems that can monitor, alert, and escalate failures to enable both sides of the relationship to respond as needed before things have worsened beyond repair.

3. Networks also serve to enable and amplify *core*, or differentiating, processes. Here innovation is achieved in collaboration with others in the network, putting new stresses on communication systems to cut through the cycle time of developing next-generation offerings. Networks must transform in order to enable a new level of intimacy, sharing data that previously was kept private.

We shall describe the different types of networks and the corresponding strategies for leveraging the resources of each company's business network.

Given the speed with which these distributed processes need to operate and the visibility into partners' operations that is needed, BNT cannot be successfully managed without robust IT capabilities throughout the network. On the IT side we see a companion set of new dynamics. The era of building out the great systems of record to enable global commerce is largely over. We can now do business at a global scale, but somewhat stiffly and awkwardly. The goal now is to become more nimble and adaptive.

Inter-enterprise processes are the new focus. Internal productivity is still a concern, but the real opaque zones where productivity can be sacrificed is *between* companies rather than inside them. Hence the need for a suitable response from IT with suitable platforms, composite applications, real-time operational analytics, and the like.

This is leading to a new systems design paradigm. Instead of beginning by designing the database, and then the transaction flows in and out, and then the reporting requirements, these systems begin with "reporting in real time"—the on-demand information and transaction processing requirements of the key person at the moment of truth (with a customer, in a design dialog, on a manufacturing line, about to approve or deny credit). And instead of asking that person to jump through hoops for the system, we are asking the system to jump through hoops for that person. In IT terms, this can only be done in a modern systems environment where SOA-enabled facilities can be readily reassembled to meet an increasing diversity of immediate needs. (See Chapter 10 for Andrew McAfee's discussion of IT enablement of BNT.)

Now let's take a look at the transformational impacts we are seeing. First, we'll look at how business networks are transforming us, then we'll assess how we are able to transform business networks to our advantage by playing a game we call *strategy chess*.