SAP: Bringing Economic Viability to the Front End of Innovation

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1 Business Models as a Complement to Design Thinking

The pioneers of design thinking postulate that innovations should start with a focus on desirability, but in the end should satisfy three perspectives: human desirability, technical feasibility, and *economic viability* (Brown 2008; IDEO 2012). With its proven and 'tech savvy' development organization, technical feasibility has never been an issue for *SAP*. Over the past few years, the development organization has increasingly been influenced by the design thinking approach, and first analyses of innovation projects using this approach have indicated that design thinking is very effective at addressing human desirability. However, economic viability is equally important, but less in the focus of design thinking (Vianna et al. 2012). Therefore, SAP looked closely into *business model innovation*. After carrying out various business model innovation (BMI) projects, including the example described below, SAP considers BMI a possible method to complement design thinking, which is deeply rooted in SAP's philosophy.

A business model is a model that abstracts the complexity of a company by reducing it to its core elements and their interrelations. It specifies the core business logic of the firm, in particular those aspects that are relevant for building its competitive advantage. It has to be developed according to the firm's strategy and can be seen as an instantiation of the strategy (Afuah and Tucci 2000; Morris et al. 2005; Linder and Cantrell 2000). While in practice the focus is often exclusively on the enterprise view or canvas (e.g. Osterwalder et al. 2005), the network view helps to fully understand and capture the relationships between all relevant business partners, to analyze the value flow (in particular in multi-sided business models), and to compare the position of the company relative to the competition.

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Business model innovation can be defined as an iterative process resulting in a qualitatively new and value-adding business model (Bucherer et al. 2012). To support BMI systematically, certain process phases are essential, i.e., analysis, design, validation, implementation planning and implementation. While it is possible to develop best practices for the first phases (see example below), the implementation itself is rather specific to the individual project and a matter of change management. The combination of business model innovation and design thinking could be intriguing because both procedures are very similar and a combined approach allows incorporating the strengths of the BMI approach with regard to economic viability into design thinking with its focus on capturing human needs and desires. In the end, the objective is to facilitate the creation of new business models with the same professionalism that is common in the area of product innovation. Indeed, in most companies there is a striking discrepancy between the common acknowledgement of the importance of business model innovation and its poor implementation (Bucherer et al. 2012; Chesbrough 2009).

2 Business Model Innovation in Practice

Our research team in Switzerland carried out a project that aimed to find suitable business models to integrate all kinds of services from SAP and its current and potential future partners into our commercial platform that had been focusing solely on software applications up to that point. We leveraged our close partnership with the Institute of Technology Management of the University of St. Gallen to jointly explore platform-based business models to commercialize all kinds of service offerings and to investigate the potential of BMI.

In the analysis phase, we started by reflecting on the triggers for the envisioned BMI. In this case we wanted to seize an opportunity: why not leverage an existing commercial platform beyond software applications for all kind of services? For this purpose we had to investigate which types of business-related services could be offered via the platform and how these could be clustered. In addition, we documented the current business model (for applications) as a baseline, as well as the models of the competition. Besides an analysis of changes in the environment (e.g. technology, eco-system, and industry), another important step was a detailed assessment of customers' needs. For this end, all (potential) customer groups had to be identified. Customers included internal entities and external partners that were needed to make the business model successful and that demanded an individual value proposition. In a last step, the objectives for the design phase were derived from the insights gained. In this project, we had to find suitable business models for all service clusters identified, and we had to gain a detailed understanding about their overall attractiveness for the SAP Store.

In the design phase, we created a large number of new business model options. The crucial steps were developing ideas in a systematic manner and using methods that were adequate for the formulated objective. Consequently, a combination of methods proven for ideation were used that allowed both for a systematic variation

of potential options (e.g., morphological analysis of all relevant elements of a business model (Schief and Buxmann 2012)) and for creative invention of previously unknown possibilities (e.g., Blue Ocean approach (Kim and Mauborgne 2005)). Some of the methods leveraged existing business models (e.g., pattern recombination (Gassmann et al. 2012)). Since the description of our business model was consistently used as the basis for all methods, all options created could be clustered easily.

During the validation phase, the various options were evaluated to determine the best business model for each service cluster using a reproducible process that could be executed very quickly and that laid the foundation for a broad acceptance of the new ideas. All options had to be discussed with all relevant internal and external experts and stakeholders. In addition, a framework for evaluation and basic business cases were created and included in the discussions with the experts. What was most important for the business cases were transparent and reliable assumptions. The framework for evaluation illustrated the impact of the different business models versus their ease of implementation at a glance and allowed for combining qualitative criteria, such as customer acceptance, and quantitative criteria, like revenue potential. Finally, we developed a generic framework of platform-based models and factors that influence the choice of the platform provider (Weiblen et al. 2012). It turned out that service standardization and the level of desired control are the most prominent drivers that determine the applicability of the different models.

In the implementation planning phase, suggestions for various pilots representing the most attractive service clusters were made, and a roadmap as well as a timeline for overall implementation were drawn up. Driven by this project, services from SAP and its partner eco-system are now being included step by step in the SAP Store.

3 Economic Viability

Many people think that in innovation projects economic viability can be addressed simply by calculating business cases early on and by creating detailed business plans at a later stage. These elements are necessary; however, this is far too little. Economic viability requires an approach like business model innovation that changes the mind-set and influences all activities.

Throughout the entire process, BMI puts economic viability at the very core of innovation. The focus on the business model forces the team involved to center their thoughts and ideas, from the analysis to the implementation, on value creation for the customer groups identified and even more on value capture. As soon as the (potential) customer groups have been identified, it is most crucial to (1) deeply understand the customers, (2) derive a convincing value proposition (taking into account what the competition is able to offer), (3) analyze and quantify the value for the customer(s), and (4) determine the most appropriate and effective mechanism of capturing the value for the company (and, if required, for the partners one depends on). In addition, the team (5) has to work out the most efficient value chain

including all partners that could contribute to enabling the company to offer the value propositions defined at the lowest possible costs as well as in an agile and responsive manner.

By carrying out these steps based on a solid understanding of the market and the competition, the team focuses on the core logic of the firm, orchestrating the contributions of various internal and external resources for optimum market success in a sustainable fashion. This is what BMI is all about, and this is its key contribution: bringing economic viability to the front end of innovation.

4 Benefits of a Combined Approach

The design thinking and business model innovation approaches can benefit from each other by integrating fitting elements from one into the other. We performed this exercise from a BMI perspective and found that BMI can benefit from design thinking in various areas, e.g.:

- By leveraging the human-centered approach for the analysis of customer needs to derive promising value propositions. The 'persona' approach can be applied to customer groups, both for B2C (persons as 'persona') and B2B (companies as 'persona').
- By leveraging the rapid experimentation and prototyping approach. We adapted it for BMI under the name of 'Rapid Feedback Loops'. The objective remains the same: 'act rough and rapid, to fail early and cheap'. Only by learning and through iterations the optimum solution will evolve.
- By leveraging the workshop formats and the focus on creativity. In our approach, there is a constant switch between workshops including creative elements and work in small teams to prepare or elaborate on certain aspects.

The investigation of a possible combination of design thinking and our BMI approach indicates that both approaches have many similarities that facilitate a close integration: similar process steps, a phased and iterative approach, and a compatible mind-set with a focus on creativity, diverse teams, and a balance between speed and reliability. The main benefits of a tight integration are:

- Parallel consideration of desirability and viability aspects
- A mind-set that is customer-centric and business-centric at the same time
- Creative process steps that focus on solutions and business models simultaneously
- New solutions and business models that are in synch at any time in the process

A combined approach delivers comprehensive results step by step as illustrated in Fig. 61. There is a reduced risk that the team focuses too much on a solution that is great for customers, but hardly economical, or, vice versa, that they create a great business model, but do not find a solution that is convincing enough to provide the required value proposition. Given these obvious advantages, we have recently started test driving a combined approach to establish if it has an edge over previous attempts.

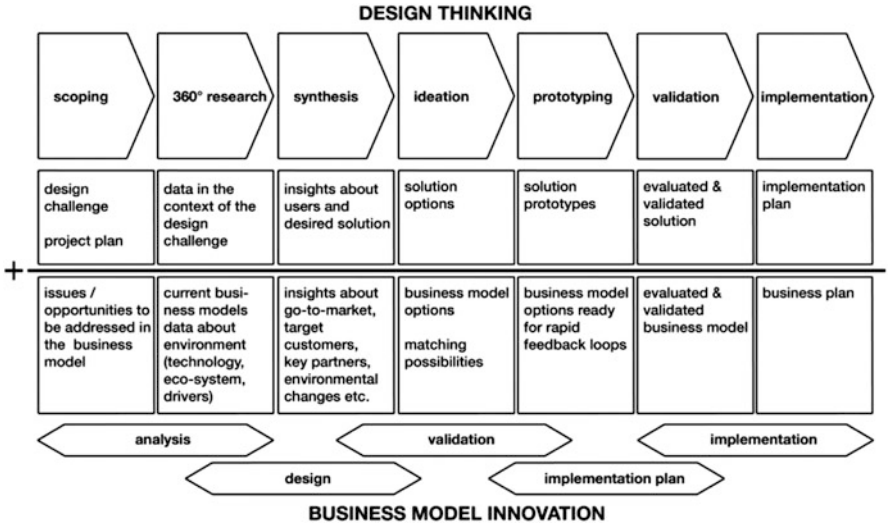

Fig. 61 The approach which combines design thinking and business model innovation

5 Checklist

Checklist for bringing economic viability to the front end of innovation:

- Approach: Do you only think of business cases or do you have a broader view? Are business models part of your analysis and design efforts?
- Attitude: Do people only focus on the next products and services? Or do they understand that customers have to desire new solutions and, even more importantly, that they have to be willing to pay for them?
- Team: Are people with different skill-sets involved in your innovation projects? Do the teams include team members with a solid business background and deep knowledge about the market and the competition?