

Why industrial companies need to lead business model innovation

(PART 3)



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If manufacturers don't have a seat at the table, they risk letting others take control of their value chains.

(CONTINUED FROM PREVIOUS EDITION)

Case study: Chemical sales model moves from volume to value

A large manufacturer of crop protection chemicals faced stagnating sales growth as farmers adopted digital tools to measure field conditions, making them less likely to overbuy. In response, the firm focused its innovation strategy on what its consumers valued – maximizing crop yields. To help address the risks faced by farmers due to factors beyond their control such as weather, the manufacturer created a program based on integrated field management practices that included several significant business model innovations.

Rather than selling through distributors, the new program sold directly to farmers. This new relationship allowed the company to set its pricing based on crop yield rather than product volume sold. If the crop's yield is lower than agreed, the manufacturer pays the farmer for the loss. Under this model, data contributed by farmers was used in predictive modeling and hedging risk at scale, which created a mutually beneficial partnership between the manufacturer and its customers.

4. Build a partner ecosystem to innovate at scale beyond sector boundaries

Business model innovation requires companies to re-examine, and often challenge, their own core competencies. Sometimes a value creation opportunity demands capabilities outside the company's experience or beyond its sector. In these cases, manufacturing leaders should focus on building or joining an ecosystem.²

To build a high-performing ecosystem, manufacturing leaders need to define where partnerships would best support value creation and delivery by extending capabilities, market presence, and innovation more effectively than through organic investment or acquisitions. While ecosystems generally provide value creation opportunities for all participants, leaders seeking to build one should look

for ways to ensure their organization "owns" it for greater control over how the additional value is allocated.

In the EY 2021 Ecosystem Survey,

2 in 3

manufacturing companies say that ecosystems are more effective than traditional growth strategies.

Through these partnerships, manufacturers should also follow leading practices in sourcing, building and managing ecosystems. Ecosystems work best when regular C-suite reviews, KPIs, dedicated budgets and clear organizational ownership are clearly articulated and followed consistently.

Case study: Ecosystems drive the future of e-mobility

Despite rising demand for electric vehicles (EV), many buyers remain on the sidelines due to range anxiety. While advances in battery capacity may help partially close the expectations gap, the lagging buildout of charging networks is a bigger challenge. Many countries still need vastly wider networks to entice drivers to adopt an EV as their primary vehicle.

The successful build-out and maintenance of EV charging infrastructure with enough capacity to support future EV demand will require a large ecosystem of energy, infrastructure and automotive companies as well as government authorities. The range of participants in this anticipated ecosystem model reflects the number of distinct core competencies required to optimize each element of the network, including the manufacturing, installation and maintenance of the chargers, site selection, power delivery, and payments.

Among future e-mobility solutions, it is possible to envision ecosystems enabling the creation of a unified platform supporting all transportation needs. The platform, which would include auto manufacturers, transportation companies and government authorities, as well as adjacent services such as insurance companies, could provide consumers with seamless access to a range of mobility options depending on location, budget and distance to be traveled. This platform would be customer-centric,

enable ecosystem partners to establish a commanding presence along the value chain with the strongest market potential, and shift revenue models to drive maximum revenue for all ecosystem participants.

Chapter 3

Key questions for a business model innovation journey

Answers may help leaders see critical knowledge gaps or risk areas before beginning the process.

As manufacturing companies seek sustainable, profitable growth, the incentives for laying the internal and external groundwork for business model innovation are clear. Nevertheless, it's not surprising that sector CEOs are prioritizing more tangible and predictable actions (e.g., investments in data and technology) over significant changes in their offerings.

Even if business model innovation doesn't appear anywhere on management's to-do list, leaders should still ensure they are thinking carefully about the current and future state of their business model and its relationship to the value chain. The answers to these questions may reveal critical knowledge gaps or risk areas that should be addressed, regardless of the specific solution:

- ▶ Value of offering: Where and how is value created by your company's products and services?
- ▶ Value to customers: Where would your customers say your products and services deliver value? How do you know this?
- ▶ Pricing of value: How does your company set prices? What is the relationship between your prices and the value delivered to customers?

- ▶ Forms of value: What forms of value exchange could you be taking advantage of beyond just fees for products? Would you be better off charging less and receiving additional data, IP rights, or access to new types of customers?
- ▶ Value from competitors: Where are your competitors creating and delivering value?
- ▶ Ecosystem partners: How are partnerships adding to the value of your products and services?
- ▶ Products, processes and people: Do you have the right products, processes and people within your organization to maximize value? If not, where is the greatest need for change? ■

REIMAGINE THE WAY YOU DO BUSINESS

You've got tough questions: How do I react to rapid customer and industry change and create a clear path forward? How do I change direction or invest in the unknown or untried?

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Our purpose is building a better working world. It starts with better questions. The better the question. The better the answer. The better the world works. Please send an email to isaac.sarpong@gh.ey.com and copy in kofi.akuoko@gh.ey.com

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