Dear Readers,

Digitization is one of the most important economic trends of the 21st century. Companies must identify the potentials of digitization and adapt their business models in order to tap them. This process raises many business management questions, and it is these which form the basis for our latest annual topic: Digital business model innovations and the role of the controller.

Before we focus on our new topic in this newsletter, we would like to report about the Green Controlling Prize 2016, which has its roots in the work of the Dream Factory on the topic of Green Controlling. Then, we take a closer look at precisely what is meant by “business model innovations” and the role digitization plays in it. Finally, we highlight the role the controller should take on in digital business model innovations.

We hope you enjoy reading this issue of the Dream Factory Quarterly.

Best regards,
Siegfried Gänßlen
Chairman of the ICV board
Prof. Dr. Heimo Losbichler
Deputy Chairman of the ICV board
Prof. Dr. Ronald Gleich
Head of the ICV Dream Factory
Stefan Tobias
Head of the ICV Dream Factory

New Team in Charge of the Dream Factory of the ICV

The new annual topic “Digital business model innovations” heralds the first new work cycle of the ICV Dream Factory under new management. Prof. Dr. Ronald Gleich (right), Professor at the EBS Universität für Wirtschaft und Recht and Managing Partner of the Horváth Academy, together with Stefan Tobias (left), Partner at Horváth & Partners, have picked up the reins of the Dream Factory.

Prof. Dr. Dr. h.c. mult. Péter Horváth (Vice-Chairman of the Supervisory Board of IPRI gGmbH, Vice-Chairman of the Supervisory Board of Horváth AG) and Dr. Uwe Michel (Member of the Board of Horváth AG) had very successfully run the ICV Dream Factory since 2010. Prof. Horváth will continue to be active in the core team, while Dr. Michel will step down from the Dream Factory to take on new responsibilities at Horváth & Partners. Siegfried Gänßlen, Chairman of the ICV board thanks both in the name of the International Controller Association for their outstanding work at the head of the ICV think tank and for their extremely valuable input over the years.
As part of the 30th Stuttgart Controller Forum, on 21 September 2016 the award ceremony for the Green Controlling Prize of the Péter Horváth Foundation took place. The award comes with a €10,000 endowment and it is given in cooperation with the International Controller Association in recognition of innovative and effective “green” controlling solutions which focus on designing and implementing ecological strategies, programs and projects. The Green Controlling Prize has its roots in the work of the Dream Factory on the topic of Green Controlling. This year’s award winners are Robert Bosch GmbH and DATEV eG.

**Robert Bosch GmbH**

Robert Bosch GmbH developed and introduced an integrated performance management system under the name “Development of a system for strategic and operative environmental controlling”. The system was anchored in all business process from corporate development through performance management and support to value creation. Within this system, the role of controlling is to ensure on both strategic and operative levels that economy and ecology are kept in balance. In doing so, the Bosch solution illustrates how the topic of ecology impacts on all the functions and hierarchy levels of the company worldwide and is lived by all employees. The role of the controller as “green business partner” stands out in particular, with the controller playing an important part in both the development and implementation of sustainability goals.

**DATEV eG**

DATEV eG is a mid-sized company which has firmly anchored sustainable business development in its corporate goals. The concept which won the award this year is “Sustainability Check – A leadership tool for anchoring sustainability in corporate performance management”. This integrative approach is both exemplary and a best practice. Sustainability is comprehensively integrated into both the organizational structure and the business processes. Controlling incorporates sustainability into its figures. Operative implementation and performance management are based on a fixed set of defined performance indicators. All board decisions must also be evaluated against sustainability aspects. Alongside what today must almost be regarded as classical environment reports, DATEV also focuses in particular on social components.

Green Controlling Prize winners 2016 and the jury (among others): Prof. Dr. Dr. h.c. mult. Péter Horváth (left), Founder of the Foundation and President of the Jury; Dr. Stefan Asenkerschbaumer (4th from left), Vice-President of the Management Board at Robert Bosch GmbH; Claudia Maron (4th from right), Commercial Director at DATEV eG; Siegfried Gänßlen (right), Chairman of the ICV Board.
Business Models | Innovations through digital technologies

Digitization is an extensive topic which has already brought far-reaching consequences (see Dream Car Report on „Industrie 4.0“, among others). In the retail sector, companies such as Amazon or eBay have used the possibilities provided by digitization to design their Internet-based business models and are now hugely successful. Outside of the retail sector, further examples of the potential for change in business models inherent in digitization are Netflix (online streaming video library) or Airbnb (community marketplace for renting accommodation). In general, the “business model” is a simplified way of describing the activities of a company to create profit and consists of a number of different components (see Figure 1).

The use of digital technologies (e.g., high-performance computers, broadband Internet etc.) can lead to major changes to the core components of business models (“customers”, “value proposition”, “value chain” and “revenue model”) or to the creation of completely new business models in companies (Gassmann et al. 2013). Usually, the implementation of digital business model innovations affect several business model components at the same time. In the following, we use different use cases to show which fundamental changes can arise from the use of digital technologies in individual business model components.

Business model component “Value Proposition”
The “value proposition” component of the business model looks at which products and/or services the company offers its customers. The use of digital technologies makes it possible to replace physical products with dematerialized ones. One example of this is MP3 technology and the associated provision of digital music. Apple created a business model with iTunes in which music is sold without a data storage medium (CD, vinyl etc.). For a fee, customers download individual titles via iTunes onto their iPhone or iPod. In this way, Apple revolutionized the music business and has become the biggest music retailer in the world without ever selling a single CD or vinyl.

Business model component “Value Chain”
The “value chain” element of the business model comprises all the activities, processes and key resources necessary for creating the product and/or performing the service and for implementing the business model itself. Companies often enter into strategic partnerships with other companies, or they invest in start-ups, in order to gain access to those key resources the company itself cannot provide. Thus, Daimler AG teamed up with Europcar to found the car2go company in order to enter the free-floating car-sharing business. Here, the entire car rental process is implemented using different digital technologies. For example, the customer’s smartphone serves as a central interface and acts as a device for information, reservation and payment transactions.

Business model component “Revenue model”
The revenue model consists of the financial aspects of the business model. This includes both the cost structure and the sources of revenue. Digital technologies can be used to implement new concepts, especially when it comes to revenue sources. In this way, Rolls Royce (manufacturer of turbines for civil and military aviation) introduced the concept of “pay-per-use”. Customers pay a fee for every hour an aircraft’s engine is running instead of buying the engine itself. In order to be able to offer such a concept, Rolls Royce records the operating data for the engines via sensors. This data is collected centrally and evaluated.

Business model component “Customers”
The customer lies at the heart of business models. Here we look at, for example, which customer groups (e.g. B2C or B2B) the company focuses on. In this context we also define how these customer groups are pitched and how customer relations should be organized. Amazon made Internet retailing popular through the use of digital technologies. In contrast to “conventional” retailing, there is no personal touch in Amazon’s customer relations. Today, the company is the largest bookseller in the world, among other things, and it has never opened a single bricks-and-mortar store.
Digital Business Model Innovations | ...and the role of the controller

There is one very important prerequisite for implementing digital business model innovations which can change whole industries in a short period of time: Agility. This applies both to the business model itself and also to controlling. Additionally, corporate culture is a decisive factor in the development and implementation of digital business model innovations. Two major factors must be vectored into this from the controlling perspective: On the one hand, controlling acts as an enabler for the development of digital business innovations while, on the other hand, the implementation of such business models itself also serves as a driver for the modification of controlling methods and instruments (see Figure 2).

Controlling as enabler of digital business model innovations

The controller should be involved from the very outset in the planning and development of digital business model innovations (IGC Controlling Process: Strategic Planning). In the context of digital technologies, strategic planning should identify and exploit the potentials for success to secure the long-term existence and enhance the value of the company. It is the controller’s job to be a guiding hand and moderator. In doing so, the controller does not determine the strategy but rather supports the decision-makers (among others at CEO level) throughout the strategy planning process. Here, it is also important to identify and evaluate the risks associated with digitization and to derive suitable prevention measures (IGC Controlling Process: Risk Management).

Digital business model innovations as driver for controlling

The implementation of digital business model innovations also requires changes within controlling itself. The business models of companies like Google or Facebook demonstrate how data can become an important resource in the digital age. This raises the question of how to value data and put a price on it. It is the controller’s job to answer precisely this question (IGC Controlling Process: Cost Accounting). Additionally, a major component of the digitization strategy for many companies is to invest in, or acquire, start-ups. Here, controllers must provide and apply suitable methods for evaluating such new and unknown business ventures (IGC Controlling Process: Project and Investment Controlling).

References