

Dear Readers,

In the last few newsletters we provided some insights into the topic we are currently investigating: **“Digital Business Model Innovations and the Role of the Controller”**. Work on the accompanying Dream Car Report is now in full swing.

In this newsletter we will recap the main tasks of the controller in the context of developing and implementing digital business model innovations. Then, we will show how digital start-ups can be managed. These are seen as important drivers of innovation, especially in the digital age. Finally, we will present a workshop format which can be used to identify company-specific needs for adapting controlling instruments and methods.

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

Best regards,

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Suggested Reading

When it comes to successfully mastering digital change, many managers see Apple, Google or Amazon as role models. However, few companies actually manage to copy the successes of these giants. Christian Hoffmeister and Yorck von Borcke summarize what Apple & Co. do “right” in 22 principles of success. In their book **“Think new!”** they provide the theoretical background to these principles and illustrate them using real-world scenarios. Additionally, many examples and concrete tips are given to ease the transfer into corporate practice.



The book **“Bitcoins and other decentral transaction systems”** by Elfriede Sixt looks at different digital currencies, the potential of cryptographic transactions and their possible basis for a future economic order. In her book the author provides the reader with a comprehensive guidebook to the complex present and possible future of crypto-currency technologies with their advantages and disadvantages, the inherent legal implications, and possible protection against the dangers they bring.



Business Model Development and Implementation | Tasks of controllers

Digital business model innovations give rise to enormous potentials for corporate success. It is the task of management to systematically identify and tap into those potentials. In this context, management depends on support from controlling. Here, controllers as business partners of management should concentrate on the three tasks outlined in Figure 1. These tasks can be formulated as problems to be solved (cf. Pampel 2017, p. 22ff.).

The **innovation problem** comprises primarily the creative process centered around the development and substantiation of digital business models. To this end, controllers should especially acquaint themselves with new innovation methods and instruments and apply them in their work. These include, for example, the methods of *open innovation*, *design thinking*, *agile methodologies* or *lean start-up*. They use different approaches to offer important support during the individual phases of the innovation process. Design thinking, for example, emphasizes understanding of the customer's problems, while lean start-up focuses on solution experiments. The upcoming Dream Car Report from the Dream Factory will take an individual look at each of these methods and discuss their use.

The **performance problem** consists of adapting the performance measurement system to the digital business model. In order to ensure pinpoint planning and performance management of the digital business model, it is not possible to simply adopt the performance measurement system of a "conventional" business model. This can be clearly shown through the example of digital platforms (e.g. Airbnb or Uber). Here, for example, use intensity and placement quality are seen as major performance indicators. Network effects play a decisive role for use intensity: the more users a digital platform has, the more successful it is. Poor placement quality (matching of supply and demand) weakens the network effects.

The **strategy problem** focuses on the transition from the current business model to the "new" digital business model. In principle, there are three different development paths: (1) Introduction of a digital business model innovation independent from the original business model; (2) Expansion of a digital business model with an impact on the current business model; or (3) Cannibalization of the existing business model by the new digital business model. Regardless of the orientation, the whole development process requires rational supervision by an independent controlling function. To do this, it is necessary, for example, to have a specific portfolio controlling for the strategic evaluation of the different business areas.

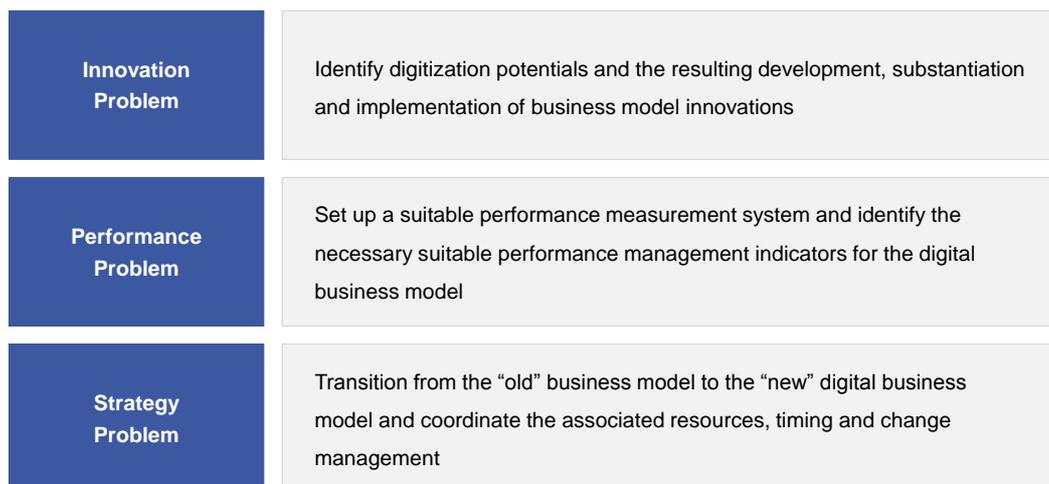


Figure 1: Main tasks of the controller in the context of digital business model innovations (based on Pampel 2017, p. 22)

Digital Drivers of Innovation | How do we manage digital start-ups?

In order to foster its own digital orientation, established companies are increasingly investing in young start-ups. These are seen as digital drivers of innovation and act as important enablers for digital business model innovations. For this reason, companies often also take over entire start-ups. For controlling, this raises the question of how to manage the performance of such start-ups. As a rule, due to the specific characteristics and nature of start-ups, “conventional” controlling systems are not suited, or only partially, to this task. The 4C Model by Kollmann and Hensellek (cf. Figure 2) provides a suitable performance management approach for start-ups.

The 4C Model for managing the performance of digital start-ups breaks relevant key performance indicators (KPIs) down into four categories: customer acquisition, conversion, customer loyalty and communication. **Customer acquisition** groups together KPIs which portray the conversion of potentially interested parties into new customers. KPIs in this category range from quantitative indicators, such as cost per mille (costs to reach 1000 contacts), via qualitative indicators, such as individual visits, to indicators such as the viral coefficient (ratio between recommendations by customers and resulting new customers). The **conversion** category consists of KPIs which portray transactions originating from the converted customers. Thus, the conversion rate (number of transactions in relation to number of visits) provides information about the success of the conversion of interested parties to customers, while KPIs such as revenue per transaction or the cross-/up-selling rate are purely transaction-based indicators. KPIs found in the category of **customer**

loyalty serve to rate the quality of a start-up’s customer loyalty. These include indicators such as online ratings, or the conversion rate of customers to regular customers, which provide insights into customer satisfaction. Other KPIs which provide information about revenues generated from customer loyalty include monthly recurring revenue (recurring revenue from different customer groups) or customer lifetime value (online contribution margin across the entire lifetime of a customer relationship). Finally, **communication** comprises those KPIs which are suitable for measuring the performance of communications between the start-up and (potential) investors. This encompasses particularly meaningful KPIs from the other three categories. Disclosure of such KPIs by the start-up fosters successful relations with the (potential) investors. For reasons of transparency, often information deemed confidential is also shared with the (potential) investors (cf. Kollmann/Hensellek 2017, p. 50ff.).

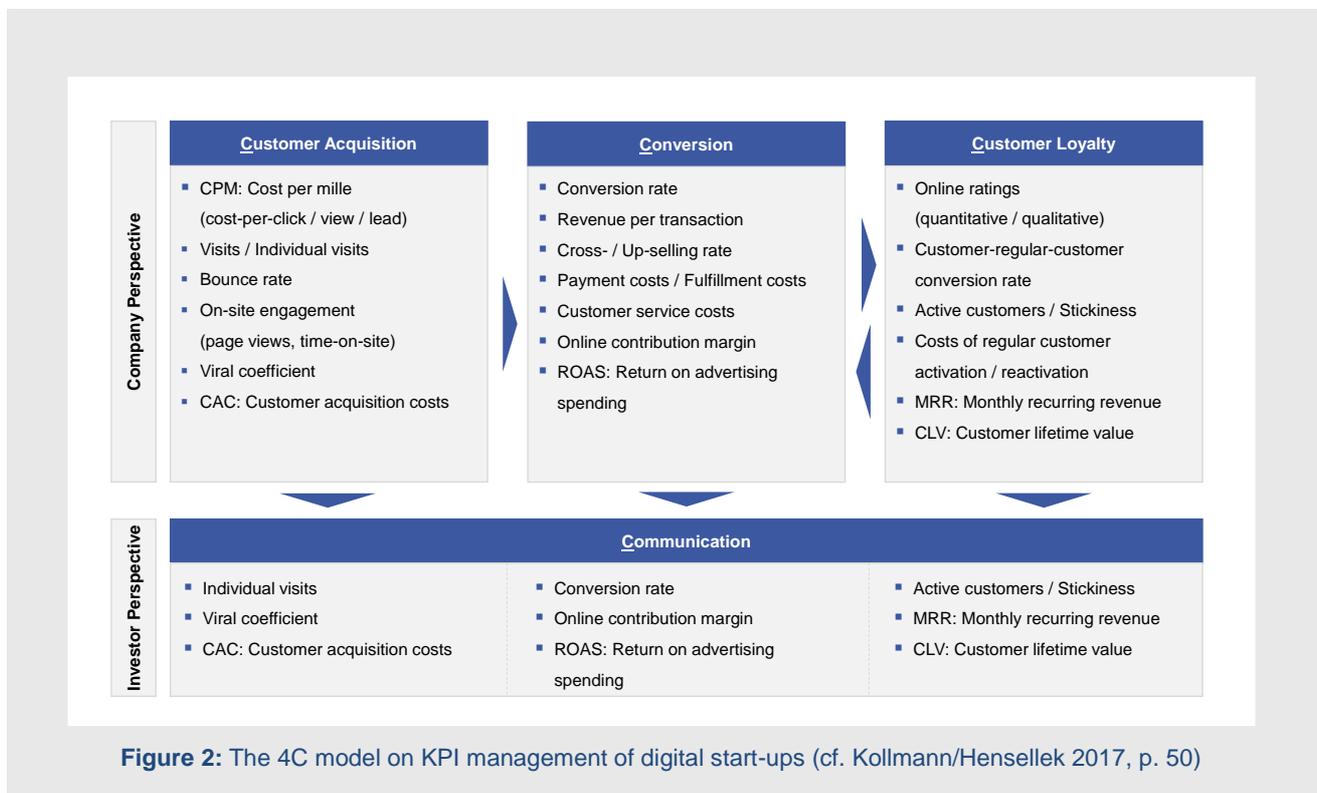


Figure 2: The 4C model on KPI management of digital start-ups (cf. Kollmann/Hensellek 2017, p. 50)

The Digital Transformation of Controlling | Example of a kick-off workshop

When it comes to digital business model innovations, there are two major perspectives which need to be considered by controlling: On the one hand, controlling acts as an enabler of the development of digital business innovations, while on the other hand, the implementation of such business model innovations must be seen as a driver for adapting the instruments and methods of controlling. In the case of the latter, one particularly important question is how to identify a specific company's need for adapting the instruments and methods of its controlling function. Figure 3 shows a tried and tested workshop format which can be used effectively in the digital transformation of controlling.

Kick-off workshop on the digital transformation of controlling

 **Duration:**
Approx. 4-6 hours

 **Participants:**
Corporate management plus managers and specialists from controlling, managers from other functions (IT, Production, Logistics, Marketing, HR)

 **Approach:**

- Use an impulse presentation by a proven external specialist to identify the needs for action your industry and present best cases for further developing your controlling function.
- Break your total workshop group of participants down into groups of max. 5-7 people, ensuring the managers from other functions are spread evenly across the groups dominated by controlling employees.
- Each group first defines which tasks will arise for controlling in the course of the digital transformation. Which solutions does the controlling function wish to contribute to?
- These findings are consolidated, augmented and approved by the total group.
- Discuss in small groups which KPIs can be used to determine progress in the digital transformation. These KPIs are consolidated in a digital dashboard.
- Develop KPIs for a balanced scorecard at corporate level.
- These findings are consolidated, augmented and approved by the total group.
- Finally, task packages and milestones for how the transformation process in controlling should develop are agreed.

 **Required resources and equipment:**

- Room to run the workshop
- Post-its in different colors, sharpies and highlighters
- Whiteboard or free wall space to attach post-its
- Balanced scorecard layouts

Figure 3: Kick-off workshop on the digital transformation of controlling
(based on Kreutzer et al. 2017, p. 212)

References

- Kollmann, T./Hensellek, S., KPI-Steuerung von Start-ups der Digitalen Wirtschaft, in: Controlling, Vol. 29, 2017, No. 2, p. 47-54.
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