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# Sound Business Model and a New Technology: Essential to Product and Process Innovation

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# Question

- Why Leaders become Losers?
  - To cherish traditions, old buildings, ancient cultures and graceful lifestyles is a worthy thing – but in the world of technology to cling to outmoded methods of manufacture, old product lines, old markets, or old attitudes among management and workers is a prescription for suicide.
    - Sir Leuan Maddock
    - New Scientist, 1982





# New Organization???

- In 2003, Apple introduced the iPod with the iTunes store, revolutionizing portable entertainment, creating a new market, and transforming the company.
- But Apple was not the first to bring digital music players to market.
- Why iPod and not the Rio (1998) or Cabo (2000), succeed?





# The Power of IT to Accelerate Organizational Transformation

- Otis Elevator - a manufacturing company
  - Transformed to a logistical and service company
  - Benchmarking with Ritz Carlton, Southwest Airlines, Disney and UPS
- Equity Bank – a MFI
  - Converted to a Commercial Bank (2005)
  - Aiming to be the most preferred bank not only in Kenya but in all of Africa





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# Business Model - Definition

- A Business Model defines how an organisation interacts with its environment to define a unique strategy, attract the resources and build capabilities required to execute the strategy, and create value for all stakeholders.
  - » **L. Applegate (Jan 2008), Harvard Business School**





# Business Model: Elements

- Customer Value Proposition
- Profit Formula
  - Revenue model, cost structure, margin model, resource velocity
- Key Resources
  - People, technology, equipment, facilities, etc.
- **Key Processes (operational and managerial)**
  - **Includes also company's rules, norms, metrics**
    - » M. Johnson et al (Dec 2008), Harvard Business Review





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# Mapping of Processes

- **Best Practices for SAP implementation in Kenya (Research)**
  - The study established that top management support, effective project management, **business process reengineering**, data conversion and phased project implementation approach are critical to success in SAP project implementation in Kenya.
    - » **C. Kirimi & F. Acosta (2009), Strathmore University**





# Mapping of Processes

- CVS, Cisco and Otis Elevator
  - are among the many companies gaining a market edge by competing on technology-enabled processes – carefully examining their working methods, revamping them in interesting ways, and using readily available enterprise software and networking technologies.
    - » **A. McAfee & E Brynjolfsson (2008) – Harvard Business Review**
- Hilton, Nairobi Hospital, Gertrudes, Equity Bank







# Equity Bank Ltd.

- Implemented new technology (Finacle Systems) in 2005; cost more or less Ksh1B.
- New Business Model
  - Customer Value Proposition
  - Profit Formula
  - Key Resources
    - **aggressive staff capacity building through hiring of new staff with specialised skills and competencies as well as staff training and development**
  - **Key Processes**
    - Application Business Process Re-engineering





# Disruptive Technologies

Disruptive technology and disruptive innovation are terms used in business and technology literature to describe innovations that improve a product or service in ways that the market does not expect, typically by being lower priced or designed for a different set of consumers...





# Equity Bank's Product Innovation

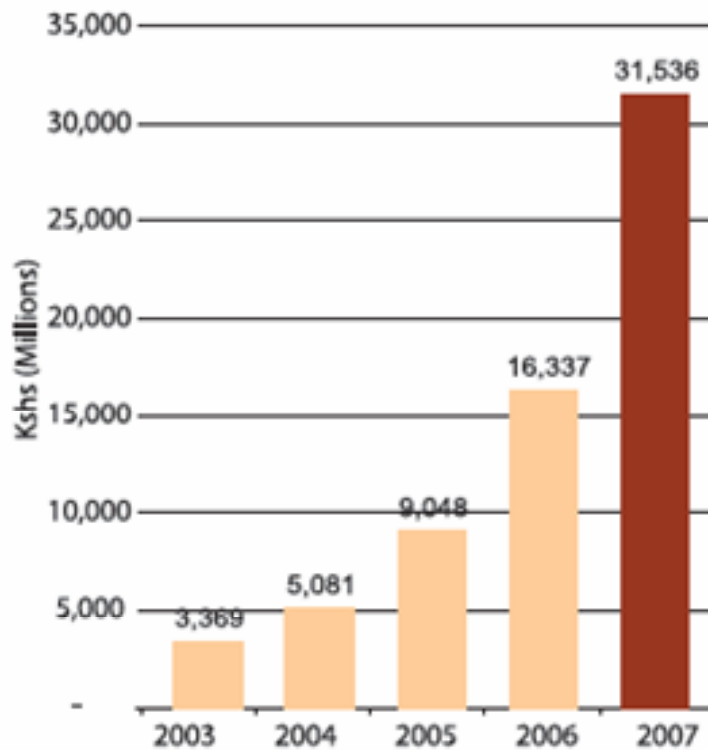
Cash Back	product allows customers to use their ATM cards to pay for their shopping and at the same time withdraw cash from retail stores and petrol stations
Fanikisha	These all inclusive products target women in business, enabling them to access affordable loans from Kshs1, 000 to over Kshs10 million.
Hekima Milele	a mortgage and investment product developed as a result of the strategic collaboration between Housing Finance (HF), British-American Insurance Company (Kenya) Limited (BAICL) and the Bank, leveraging on the competitive advantages of the three institutions
Kilimo Biashara and Uvuvi Biashara	These products provide affordable credit facilities to farmers and fishermen.



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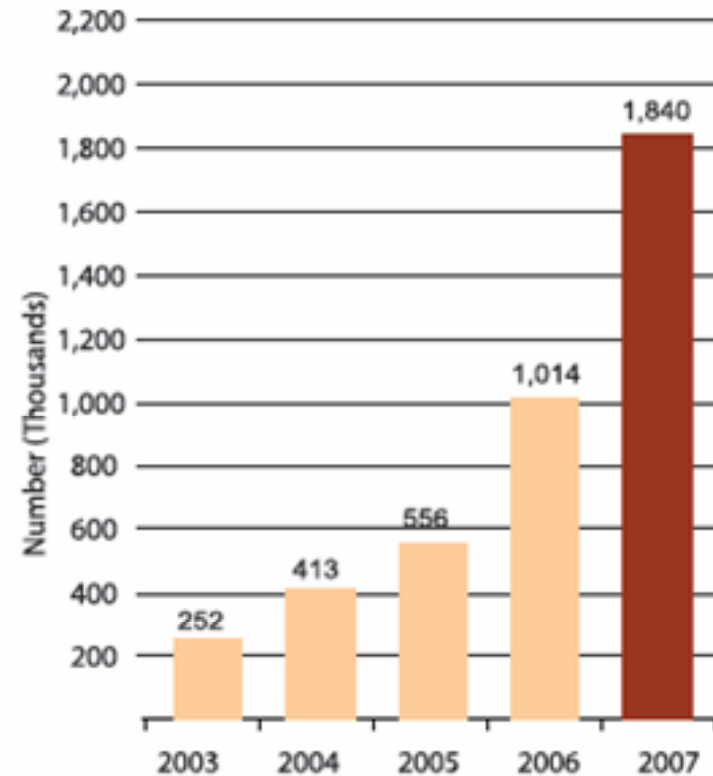
# Equity Bank Results (2005-2007)

### Growth in Customer Deposits



250% growth in 2 years

### Growth in Customer Numbers



230% growth in 2 years

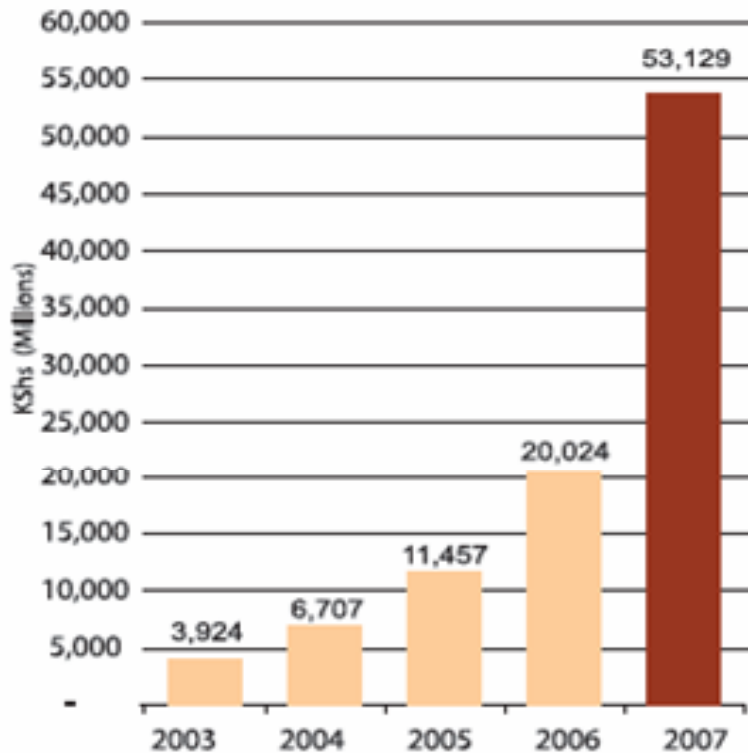




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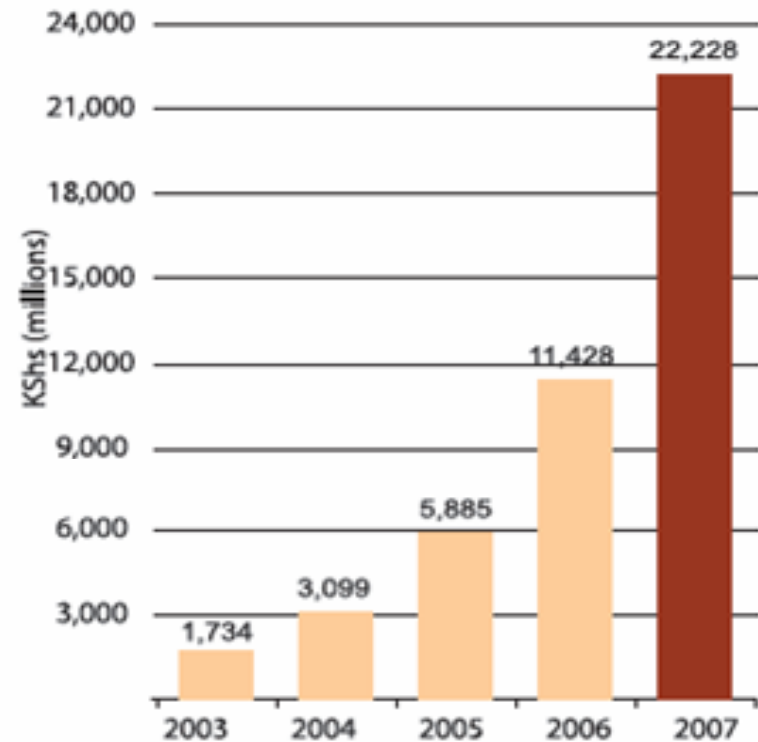
# Equity Bank Results (2005-2007)

### Growth in Total Assets



364% growth in 2 years

### Growth in Gross Loan Portfolio



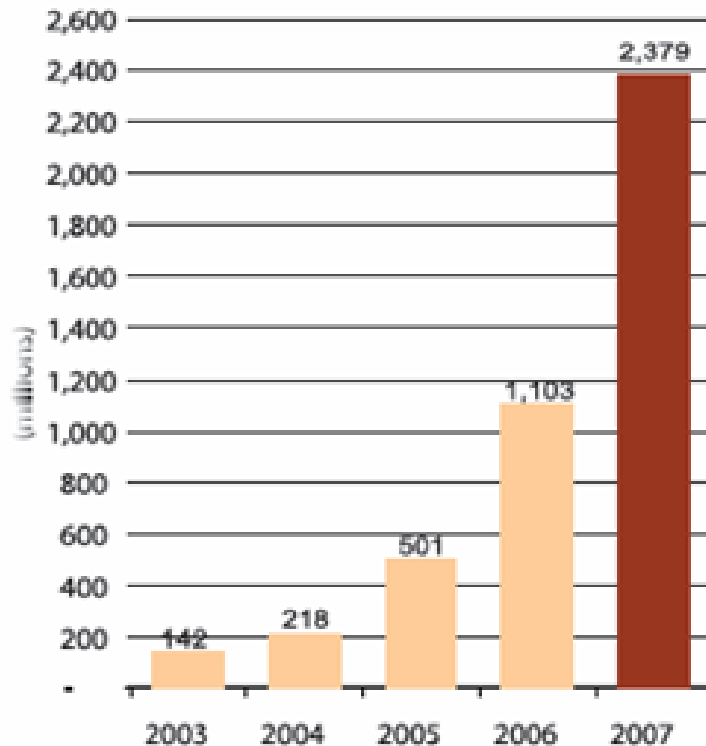
278% growth in 2 years





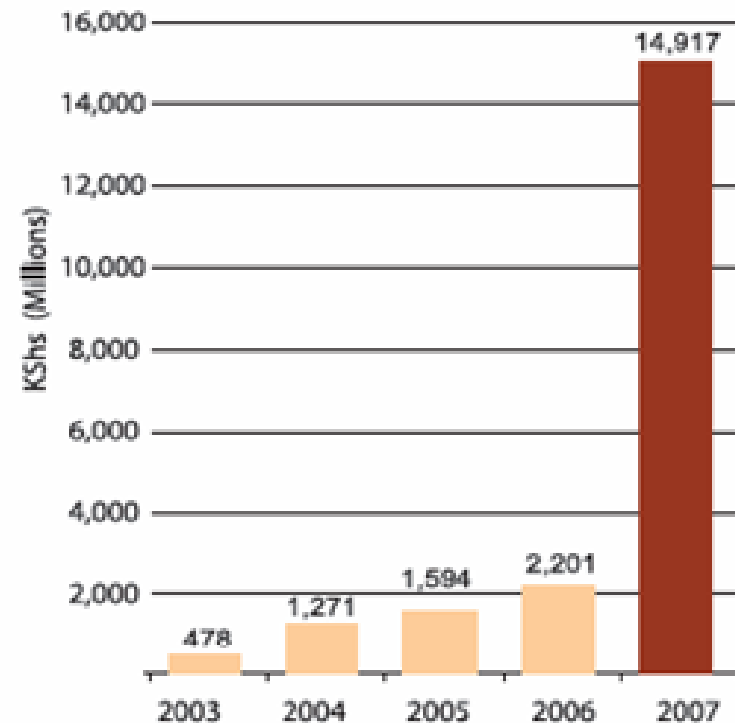
# Equity Bank Results (2005-2007)

### Growth in Profit Before Tax



375% growth in 2 years

### Growth in Shareholders Funds



836% growth in 2 years

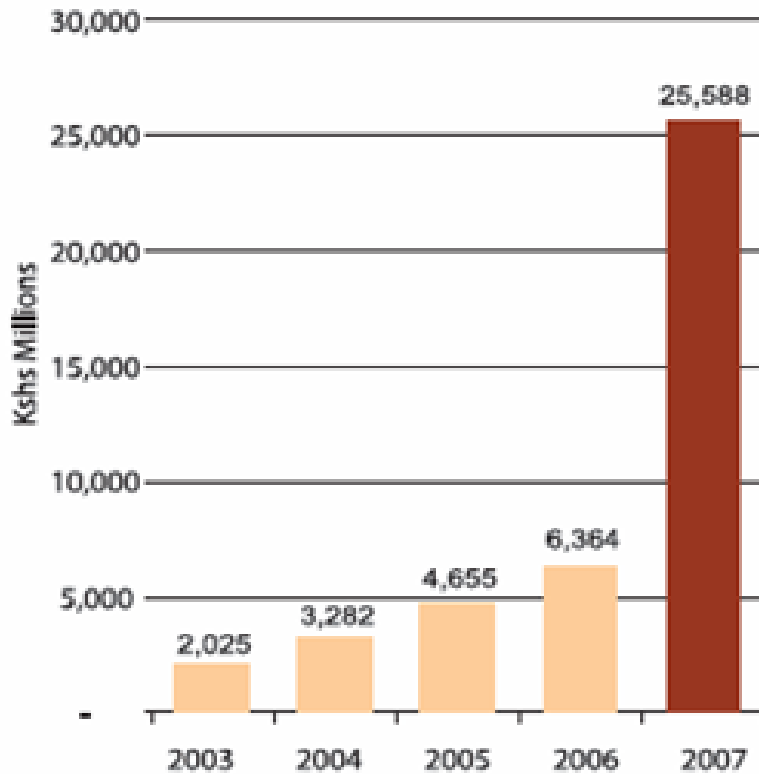




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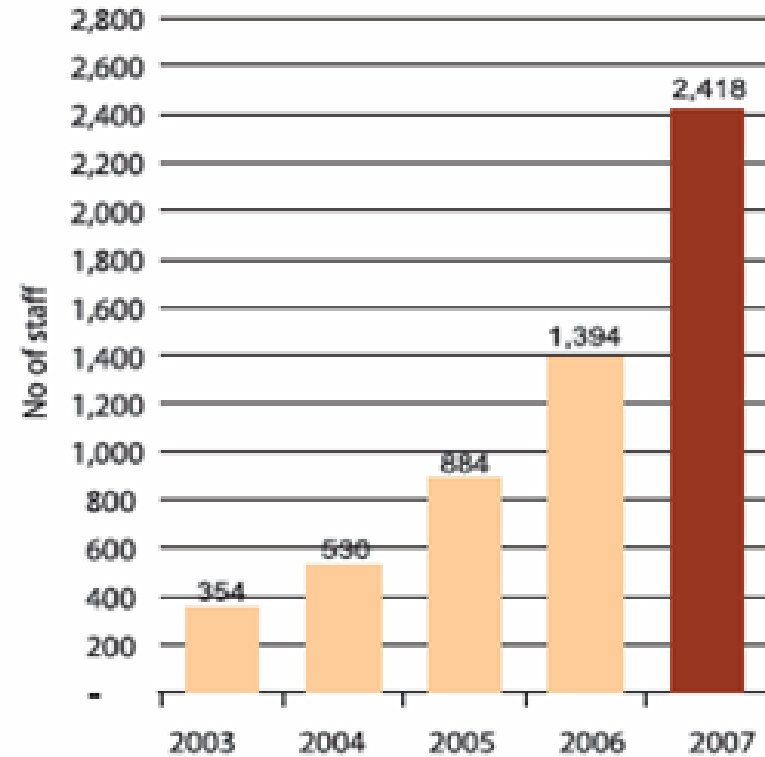
# Equity Bank Results (2005-2007)

### Growth in Liquid Assets



450% growth in 2 years

### Growth in Staff Numbers



174% growth in 2 years





# Apple's Innovation

- It took a good technology and wrapped it in a great business model.
- Apple's true innovation was to make downloading digital music easy and convenient.
- The company built a ground breaking business model that combined hardware, software, and service.
  - » M Johnson et al (Dec 2008), *Harvard Business Review* , p.51
- Consumers find it convenient to use mobile phones, video, internet access, etc. through one single device – i.e. convergence.







# Apple Results

- In just 3 years, the iPod/iTunes combination became nearly \$10 billion product, accounting for almost 50% of Apple's revenues.
- Apple market capitalization catapulted from around \$1 billion in early 2003 to over \$150 billion by late 2007.

– M Johnson et al (Dec 2008), Harvard Business Review





# Otis **Process** Innovation: Fivefold Improvement

Step in Business Process	Proportion of Elapse Time	Cycle Time Reduction
Project Proposal	3%	10x
Sales Processing	8	4x
Order Fulfillment	30	5x
Field installation	41	12x
Closing Activities	18	2x
<b>Total</b>	<b>100%</b>	<b>5x</b>





# Otis Elevator Results

Figure A United Technologies Stock Price January 1, 2003–January 1, 2004

## UTC SHARE PERFORMANCE



Source: Company documents.





# Conclusion

- Information Economy Benefits
  - New Technology + Old Organization = Ok, but disappointing results
  - New Technology + New Organization = 10x Results

