

Inauguration
4th November 6.00 pm onward



Keynote Speech on Business Model Innovation: Collaborating to Compete

KEYNOTE SPEECH DELIVERED BY

- **Prof. Rajendra Srivastava**
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Singapore Management University and
Dean – Designate of the Indian School of Business (Hyderabad & Mohali).

SUMMARY OF THE SPEECH

The Keynote speech of the 36th National Conference of the Institute of Chartered Accountants of Sri Lanka was delivered at its inauguration on the topic of *Business Model Innovation: Collaborating to Compete* by Prof. Rajendra Srivastava.

At the core of the topic were five key spectrums which are business assets and value, value creation and innovation, co-opetition, business model innovation and finally how accountants could think differently.

Establishing his approach, Prof. Srivastava brought out analytics of stock frames of two companies, Apple and Google and outlined the fact that when Apple share price has been declining, Google saw an incline in stock demand. Bringing out a matrix for Apple and Google he stated that in terms of the *Market to Book Ratio* was 3.6 for Apple and 4.6 for Google, *Price Earnings* and *Price to Cashflow* also depicted a similar trend. However, when it came to return on assets everything changed. *Return on Assets* for Apple were 17.6 while for Google it was at 11.9 and it was a similar case for *Return on Equity* and *Return on Invested Capital*.

Professor highlighted through this matrix that Apple was ahead of the game during the specific quarter and the contrasting stock frames were observed afterwards. Taking this into illustration he affirmed that future valuation differs to results of the previous quarter. He further stated that what is visible as tangible assets in a company is only 25% of its value and the balance 75% such as Brands, Customers, Distribution Networks, Human Capital, and Intellectual Property are acting as a stronger under-current.

The speaker then illustrated on three clusters of companies to bring out three unique ways of competing which he referred to as the DNA that drives the future of the businesses. The segregation essentially was companies which focused on product innovation (What?), infrastructure management (How?), and on customer relationship management (Who?). He affirmed that most successful companies are excelling on all three areas of expertise such as Apple and Samsung and this makes the business become a lot more sustainable. This, he introduced as Multi- Process Excellence Business. While proposing this model as

the way forward for businesses he stated that it was no longer about product innovation but about networked markets.

Prof. Srivastava then took examples out of few sectors such as healthcare to emphasize the difference between product and process innovation. With this he stated that coming up with new discoveries alone was not sufficient and it was also essential to understand how to make those discoveries work. To highlight this further he made an interesting example from the computer industry where he stated that "Intel made the chip but Dell and Lenovo brought it to us". Furthermore, he spoke of the importance of reverse engineering taking into example the Indian air conditioners which are heavily adapted into heat and dust being now globally sought for by countries with similar conditions. He highlighted the importance of defining products for local conditions by which companies could eventually find global markets.

Speaking of the disintegration of the computer industry through evolution of networked markets and competition, he narrated the story of Microsoft at its early days where it was not concerned regarding piracy. Microsoft had the knowledge that the more and more which gets to use their product; the more it enabled them to become the de facto standard. The speaker elaborated on how the company went a step ahead and co-branded itself with Intel, integrated with PC manufacturers such as HP, Gateway and Dell, collaborated with software designers such as Novel and 123, and even with competitors like IBM and absorbed new customers in by giving away samples of the products. All such initiatives assisted them to turn their stakeholders into assets and stay ahead of the game. Bridging this narrative into Brand Value networks and Eco- Systems, Professor stated that Apple later adopted a similar strategy for their iPod and collaborated with Sony for content, BestBuy for distribution, BOSE and Benz for functionality, U2 as their official band and with NIKE to make it a wearable gadget. Apple later replicated the strategy for iPad & iPhone and was it also adapted by Google.

Prof. Srivastava further spoke of the Flipkart M- Commerce Innovation which converted the disadvantages of the inefficiency of transportation logistics within India to its advantage by localizing their distribution networks. Speaking of competing in a networked world, the speaker stated that the customer installed base is a critical asset and that customer solutions require win-win strategies. He also stressed on the fact that a company should not get carried away with marketing management but should rather concentrate on managing the market.

On the topic of business model innovation and corporate performance, Professor brought out examples from the automotive industry. He spoke of Henry Ford who focused on value migration in automotive markets by creating an efficient production line, Alfred Sloan who focused on managing customer through their life cycle and of companies such as Mercedes-Benz, Porsche, Lexus which benchmarked competition with branding. The automotive industry operates in two spectrums today where countries from the East are producing volumes like Henry Ford and adding capabilities later whereas brands such as BMW enables themselves with values, delivering to a niche market and then consider volume.

The speaker then moved the focus of the audience to the evolution of the car renting business and how it has evolved from 'enterprise' to 'Uber'. He pointed out that Uber has no fleet of its own, contained limited hard assets, offer differentiated services, charges 20% compensation on fare and driver keeps rest, and that the dynamic pricing helps UBER charge premium during peak times. Most importantly he stated that it maintains market-based assets where the drivers are at one end and consumers at the other.

Another essential factor discussed was managing business performance, and the speaker stated that accelerating cash flows (drive growth), sustaining cash flows (reduce volatility vulnerability), enhancing cash flows and strategic investments which enhanced long term value were identified as drivers which sustained shareholder interest.

The speaker finally focused on takeaways for accountancy and emphasized on the importance of looking into four main components. Firstly, business assets and value where understanding what unique insights the profession can offer is essential , new metrics such as value of human capital, IP, brand needs to be looked into and he further spoke of the importance to understand the key assets of a company such as customers, brand, trust, reputation. Secondly, he highlighted on being involved with value creation and innovation by understanding who the customers are, how to engage with them and identifying the global markets. As the third point, he spoke of competition where market-based assets are excelled through partnerships with Lawyers and Domain Experts. The fourth component was business model innovation and he highlighted the importance of looking at both short term and long term matrixes.

Prof. Srivastava concluded with a note of motivation to the profession by stating that the role of the accountant has certainly changed with the current eco system and that there will be abundance of more opportunity in the future for accountants than they have had in the past.