

Component business models

Making specialization real

Open communication standards and plummeting transaction costs have ushered in the era of specialization. But putting specialization into practice with the right operating model requires executives to think differently, not only about the construct of the company but also about the interrelationships of the assets they rely on to provide value to the marketplace.

Component business models offer a proven approach to driving a specialized focus, both internally and externally. Internally, components help firms rethink the leverage they can achieve with the assets and capabilities they own. Externally, components help firms source specialized capabilities that they cannot feasibly create themselves. Combining these types of specialization allows firms to redefine their competitive positions in the face of the sweeping changes in their industries, while simultaneously achieving the competing benefits of scale, flexibility and efficiency.

So what are business components?

Business components are the modular building blocks that make up the specialized enterprise. Each component encompasses five dimensions:

- A component's *business purpose* is the logical reason for its existence within the organization, as defined by the value it provides to other components.
- Each component conducts a mutually exclusive set of *activities* to achieve its business purpose.
- Components require *resources*, the people, knowledge and assets that support their activities.
- Each component is managed as an independent entity, based on its own *governance* model.
- Similar to a standalone business, each business component provides and receives *business services*.

Business components derive much of their advantage from two related but distinct traits: the loose coupling of links between components provides flexibility, adaptability and responsiveness, while the cohesion of activities within each component provides efficiency and enhanced quality.

Components aggregate business activities into discrete modules that can be shared across the firm. But how do they work together within the context of an overall business model? As shown in the figure, CBM provides a framework for organizing components by competency and accountability level. By employing this framework, executives can begin to envision how current business activities might function as an interlocking set of modules.

A strategic road map

CBM is not simply a way to imagine the future of the organization. It can also be used to put theory into action and drive the evolution toward a specialized enterprise, both internally and externally. This process involves three dimensions: one, developing a component view of the existing organization based on analysis of the business and the market environment; two, evolving toward specialization based on a reinvention plan within the context of changing industry dynamics; and three, advancing the organizational and operational infrastructure toward component-based enterprise optimization.



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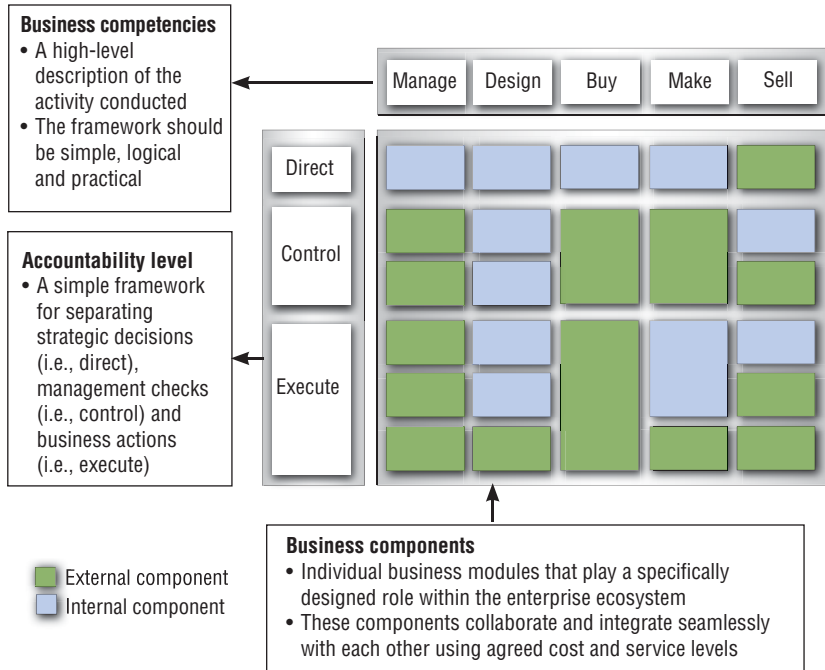
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Make internal and external specialization practical by organizing activities by accountability level and competency.



Source: IBM Business Consulting Services.

To compete in the emerging world of flexible, open value networks, companies will need to focus on the few activities where they have a truly differentiating advantage in the value they provide or the cost at which they deliver versus the competition. CBM points the way forward by giving executives leverage to drive flexibility, scalability, efficiency and openness throughout the enterprise. The global connectivity platform has forever rendered transactions cheap, simple and ubiquitous. In this new environment, proprietary industry value chains are an anachronism, and hardwired business structures are a liability. Firms that adapt will be able to better satisfy the demands of shareholders, employees and customers. Those that resist this change, or fail to comprehend it adequately, will simply not be able to compete in the longer term.

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