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Wired and ready for action

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Digital connectivity has changed the business model and will allow current vertical industries to hitch their value propositions and revenue streams to other firms' offerings

The term 'business model' may be a word everyone claims to know, yet most find it hard to define, **Irene Ng** tells *Perspectives@SMU*, adding that it's also a most elusive subject when it comes to nailing down specifics.

The business model in its modern form is comparatively new. In the past, she says, business was focused on the sharply drawn silos of strategy - OBHRM, marketing, finance and accounting - while academia focused on the matching disciplines. Together, they produced a knowledge base growing out of each discipline.

“The relationship between the firm and its market used to be quite distinct and if a connection existed with a customer, it was likely to be in the form of feedback loops or loyalty programmes,” she says of the engagement between the two. Ng terms this form of business model a ‘loosely-coupled’ system.

But the connected world is shaking that ‘loosely-coupled’ system, a theme she explores further in her new book *“Value & Worth: Creating New Markets in the Digital Economy”*, which examines how digitisation is changing the way we buy and use products and services.

When you have a connected world, the business model is not just the business model of the company, what it offers and how it creates or capture value, she says, but it interacts with other companies' business model and emerges on a wider scale to become an economic model of ‘who does what and who gets what’ in the economic system.

Rather than ‘loosely-coupled’, the new business models are ‘tightly coupled’ and function in a more systemic way, reflecting the changing relationship with the market, customers and accelerated by connected customers, especially through social media. “A lot of the products that we were selling essentially became a service, which then morphed into a combination of product and service, enabled by greater digitisation and connectivity,” she explains.

This creates a 'digital backwash', as she terms it, as the medium begins to change the message and physical products begin to change their form, as in the case of the smartphone, music and books.

Participative and involved customers

New models continue to emerge in the connected world, notes Ng, and are moving towards more collaborative business models. “They are much more participative, more engaged and involved than before.”

They also need customer input or participation.

But personalisation is no longer served in the way that it once was and the consumer is no longer passive.

“We don’t necessarily live in an age where the more information about the person you have means you can serve the person better,” she opines. “Instead, firms have to think about how to step back and make their product a platform for customers to use data for themselves and co-create value with the firm. The digital visibility of customer experience of a product, available as personal data, is a firm's biggest opportunity to create market advantage through configurable products or service.”

To leverage this, she says, firms have to move beyond the current traditional mind-set that consumption data is only useful as intelligence to feed back for demand management, similar to buying data.

“People don’t seem to understand that we’re moving into an age where an individual is empowered to control his own behaviour through information,” says Ng.

“Everyone wants to own our data,” she adds. “And privacy is one of the biggest issues in the personal data space”, Ng notes in a passing reference to the on-going NSA issue.

She is particularly conscious of the strong challenge of the model of public, private and open architecture in three key areas: the personal, market and company spaces.

Personal data economy

She believes the personal data economy—a structured way to collect and own our own data—is going to “radically change how we make things because we can apply our data on to new products and services in a way that we never could before.”

In the past, says Ng, whenever ‘personalisation’ or ‘customisation’ was mentioned, we would have to just voice what we want; we wouldn’t have said, oh and by the way, ‘here’s a set of my data’.

The future, however, will make this possible and will bring a more structured approach towards personalisation as well as standardisation.

Some parts of the connected world should be private, she insists. “The way I look at it is that it has to do with the industrial economics of private, public and openness. It’s much more to do with markets and industrial economics than, say, the ideologies surrounding capitalism.”

Meanwhile in the case of markets, she believes the horizontal economy is going to blossom.

The horizontal economy

The horizontal economy is where very different industries get to play on various platforms, be it, for example, an urban city platform or a house platform. To explain further, she cites the example of the weekly trip to the supermarket. “You will need fuel to get there and if the supermarket pays for the fuel or offers discounts on fuel, all of a sudden the supermarket will have an interest in your car and could even subsidise your car insurance or ownership for example.”

Companies, on the other hand, really need to think about business model architecture, “and in a serious way,” emphasises Ng, “because they’re going to have their role assessed with the public—and other firms—in terms of openness, their role with the government, the market and citizens”.

Agility, participation in the collaborations, and sound business model architecture are essential, she adds, because they will drive whether or not companies are going to survive.

Irene Ng is director of the International Institute of Product and Service Innovation and Professor of Marketing and Service Systems at University of Warwick. She was speaking at SMU’s Innovation Club Roundtable Series recently.