



## WIFU\_compact\_12:

# Identifying and Shaping Digital Business Models

Most measures to digitalise businesses are rather simple and poorly structured and fail to grasp the scope of the business model. New entrants to the market can exploit this vulnerability. While established businesses try to use the potential offered by digitalisation to improve their products or services, market newcomers create – apparently from scratch – completely new offers, thereby increasing competitive pressure on traditional businesses.

### Do we all understand the same thing by “digitalisation”?

No, we don't. Digitalisation is often confused with technology; it is, therefore, important to be clear on precisely what the term means. Broadly, we need to differentiate between three core aspects:

- the *internal* focus on processes in the firm
- the *external* focus on digital forms of cooperation and communication with clients and partners
- the *performance-based* focus on digital products and services.

These three perspectives define the scope to which digitalisation activities are subject. It is thus important to remember that no single measure – for example, the creation and use of a digital order sheet – suffices in bringing about the digital transformation of the business.

### Is there a systematic approach?

There are essentially three phases to the digital transformation of a business. In Phase 1 – the *digitisation* – information technology is used to digitalise manual operations and technical infrastructure and to save costs. In Phase 2 – the *digitalisation* – existing products and services are digitalised along with interactions with suppliers, clients and distributors. Finally, the *digital transformation*, Phase 3, leads to holistic change within the firm, i. e. “disruptive” changes within the value chain. The measures in Phase 3 aim to create new competitive advantages and to defend the firm against competitors through the use of digital business models.

### What influences the shaping of digital business models?

A given business model may be described as an aggregate of three value dimensions: value creation, value proposition and value capture. A *digital* business model requires that all three value dimensions either be digitalised or enabled by digitalisation. Through careful analysis of the market position of a firm and its resources, as well as its core dimensions and value dimensions, we can identify whether, where and how existing business models can be digitalised or newly created with a digital focus.

### How are digitalisation activities applied to the value dimensions of a business model?

A firm's digitalisation measures become particularly apparent in the *value creation dimension*, where it is possible to increase effectiveness, improve productivity or decrease production costs through the use of digital processes. New forms of cooperation with external partners will become viable, such as a direct line to suppliers. Further, it will be possible to analyse the user behaviour of customers and operators through appropriate high-performance end products and use this knowledge for continuous adjustments.

With the *value proposition*, digitalisation creates new possibilities to rapidly adjust products or services to meet customer preferences and wishes, e. g. through customisation. Family businesses in particular find it hard to accept that the value proposition will change from business-specific to service-specific. For instance, a firm may transition from supplying a product to supplying a combination of product and service. It is important to note that complementary offers of products and services gain value through the lens of consumers and users. Likewise, the term “servitisation” describes a bundle of products, software and service.

To enable *value capture*, firms must popularise new forms and sources of revenue. Saving costs, for example by the automation of processes, frees up financial resources for a strategic re-orientation. A well-organised network with external partners and/or data analysis enables the cross-subsidisation of non-profitable offers to achieve longer customer retention and stronger market penetration. Corresponding ideas abound: licence fees, usage fees, sponsored ads on digital media, commission earnings, usage time-dependent computational models, “pay-per-use models” or “freemium” offers.



### Are there specific recommendations for family businesses?

Yes, six central fields of action for family businesses have been identified:

- 1 Active involvement and support of senior management:** A decisive feature in the success of digital transformation is that owners and senior management give their active and vigorous support. Relevant projects thus become more legitimised and more evident in the business. If the decision-makers themselves have limited digital competence, it is critical that they place their trust in designated experts on the subject.
- 2 Internal communication:** It is important that the general mood is positive, and that colleagues support the undertaking. Digitalisation may be seen as a threat to the traditions and values of the family business, jobs and positions.
- 3 Appropriate partnerships:** Specialised knowledge must generally be incorporated into the business through partnerships. These cooperations need to be intelligently developed to ensure that there are no dependencies, and knowledge transfer to the core business is guaranteed.
- 4 No template solutions:** Family businesses will have to try something that goes “against their nature” – to experiment to some extent. Nevertheless, the finding and testing of new initiatives must follow a strategy, not least to limit the pressure on the resources.
- 5 Shaping digital sections:** A separation of “digital units” from parent company may be useful to avoid strong tensions between different “cultures” in the everyday business. However, care must be taken to ensure that such satellites do not move too far from the base.
- 6 Stamina and iteration:** The status of digitisation projects should be reviewed regularly to enable constant improvement. However, firms should not give up too soon. Such projects do not always follow a linear progression. The development of digital business models requires the stamina of a marathon runner.

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Alfred-Herrhausen-Strasse 48  
58448 Witten | Gemany  
Tel: +49 2302 926-510  
[stiftung@wifu.de](mailto:stiftung@wifu.de) | [www.wifu.de](http://www.wifu.de)

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#### Reference:

This episode of WIFU\_compact is based on the Practical Guide “Digitale Geschäftsmodelle in Familienunternehmen” by Thomas Clauß and Marc André Scheffler, published in 2021.