

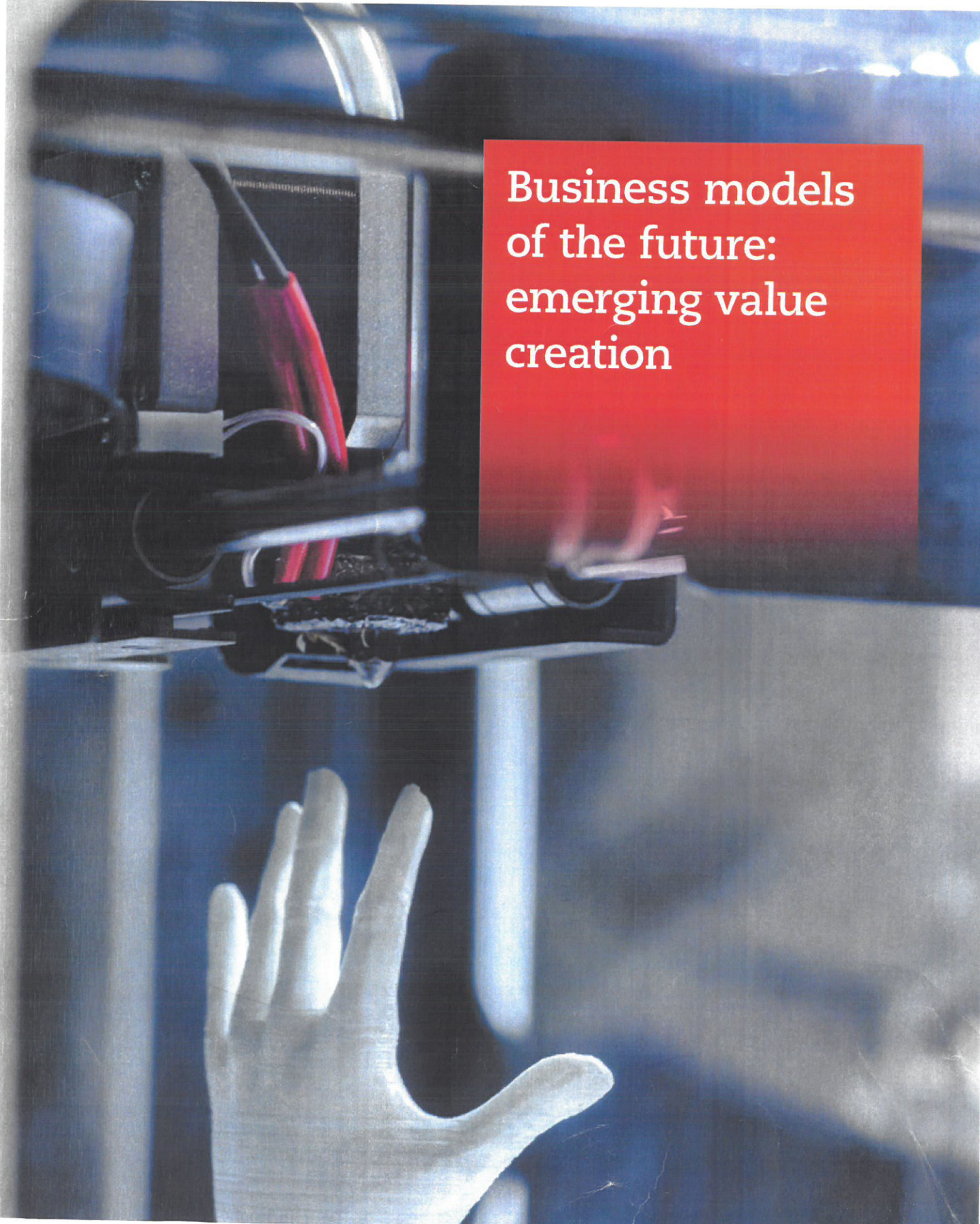


HIGHLIGHTS

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Think Ahead

ACCA



Business models
of the future:
emerging value
creation

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Why does the business model matter so much today? From technology to demography, the global economy is entering a new era. Reappraisal of value proposition, value creation and value capture can open up new opportunities for companies to thrive.

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Founding a business has experienced a steady global rise as the career aspiration du jour, usurping the long unchallenged 'job for life'.

New business models can uncover new, updated ways of creating value, giving them the continued ability to make a meaningful impact on the way people live and work.

Across a range of geographies and industries, today's world appears both to be replete with opportunities for better problem solving and facing a mounting set of interconnected challenges that affect people's ability to prosper and live well.

This highlights report examines six business models and assesses the characteristics of the world in which they operate. It will:

- outline factors that has caused business model thinking to rise in prominence
- present the six selected business models: platform-based, mass customisation 2.0, frugal, modern barter, 'pay what you want' and mega-hyperlocal

- outline a framework for assessing the potential of new business models to create value – 'Full Stack' framework
- explore the potential of each of the six models
- provide a set of recommendations to consider when thinking about business models of the future and their role in the 21st century.

This report is based on findings from workshops held in Hangzhou, Lagos, Singapore, Bangalore, Hong Kong, Kuala Lumpur and London. This geographic spread of the workshops provides a global view of the models and their future potential across a wide range of horizons and opportunities.



Why does the business model matter so much today?

From technology to demography, the global economy is entering a new era.

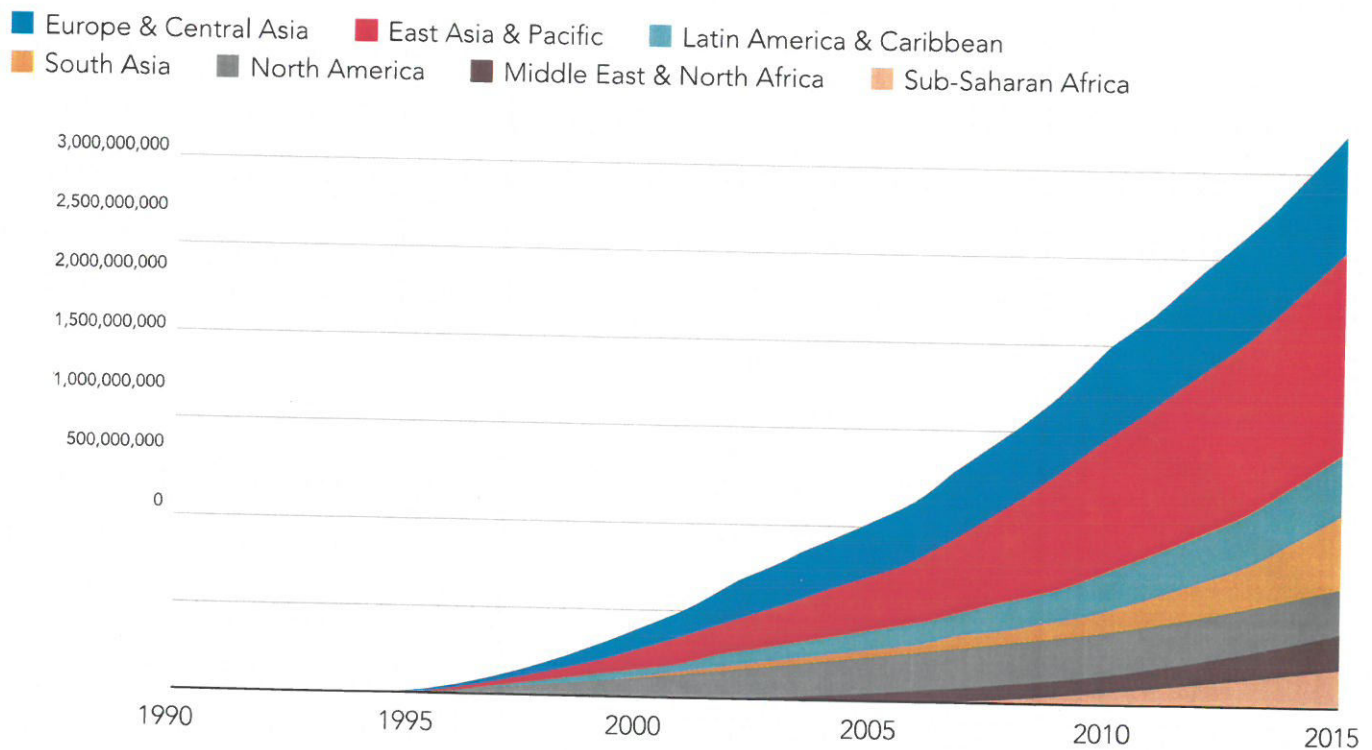
Why does the business model matter so much today? From technology to demography, the global economy is entering a new era. Reappraisal of value proposition, value creation and value capture that make up the essence of business models can open up new opportunities for business to thrive.

This report explores the role of technology and its impact on business models. Throughout this report, technology is recognised as a creator of new opportunities and woven into the fabric of many of the models and issues that are set to be discussed.

It is impossible to ignore the impact of the extremely rapid global growth of internet use, followed by the more recent spread of mobile technology as the number of smartphones in use exceeds 3.7bn by one estimate (Ericsson 2016).

Nonetheless, technology is also only one of a collection of value-creation enablers that, when combined with other factors (e.g. 'the value of networks') in a variety of different contexts (e.g. 'a growing middle class'), leads to the reshaping of business models.

Figure 1: Number of internet users by world region, 1990 to 2015



Five factors that elevated the business model

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Five of the most significant factors that have brought business models to the attention of entrepreneurs and established companies include:

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1. TUMBLING TECH COSTS ARE BRINGING IDEAS TO THE FORE

From being able to access software as a service (SaaS) to reaching customers on data-enabled mobile devices, technology has unleashed ingenuity as the principle engine of value creation.

2. THE RISE OF 'START-UP CULTURE'

Founding a business has experienced a steady global rise as the career aspiration du jour, usurping the long unchallenged target of a 'job for life'. This is not just occurring among millennials, for whom 'start-up founder' might be one of a myriad of what-were-formerly-known-as careers that they will undertake over the course of their working lives. It applies equally to professionals, living longer and retiring later, looking to use their contacts and experience to exploit new opportunities,

3. THE RISE OF NEW TOOLS TO MEET GROWING INTEREST

Many new tools have emerged to meet this new interest. For example, tools like the The Business Model Canvas became

the de facto planning standard for aspiring start-ups around the world for plotting their ideas and shaping their futures.

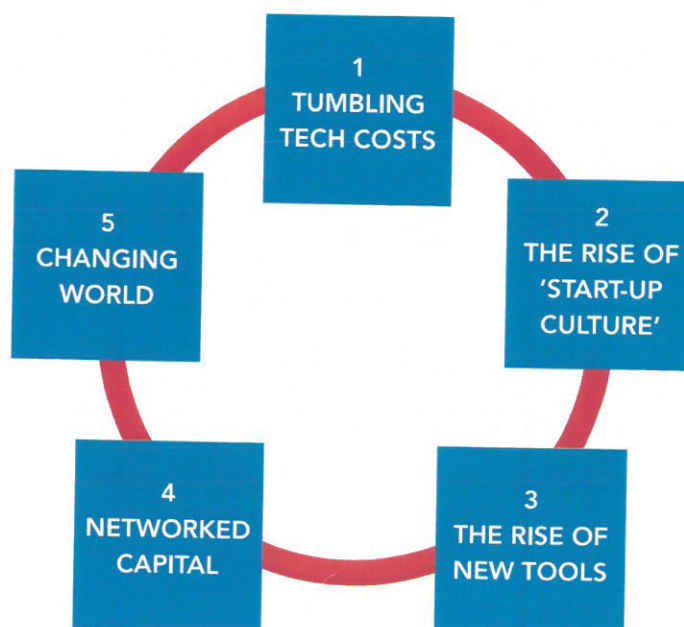
4. NETWORKED CAPITAL

From start-ups to SMEs and even larger entities, access to finance has long been a stumbling block for businesses. The growth of digitally enabled networks has seen individuals start to come together to pool resources directly with each other to fund new opportunities. The evolution of networks has seen them occupy an increasing number of spheres and with greater degrees of sophistication and value.

5. THE CHANGING WORLD NEEDS NEW MODELS

Over two decades, rising incomes across lower-income and middle-income countries have opened up new opportunities and, hence, space for new models. This has created new marketplaces that are not well served by traditional models designed for older markets. At the same time, engines of prosperity have stalled and incomes have stagnated for the middle classes in advanced economies.

Figure 2



Business models of the future

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What are the business models of the future? The six models chosen for this report have been selected for their breadth, diversity and interconnectedness.

This report explores a set of business models referred to as 'business models of the future'. Together, they represent a range of areas that have the potential to alter the way we live and work radically. Some models have already given rise to billion-dollar businesses that have become household names. Others are addressing customer needs in less high-profile but still value creating niches that have the potential to create even more value in the future, in a way that responds with ingenuity to changes taking place around the world.

1. PLATFORM-BASED BUSINESSES

Platform-based businesses, two-sided or multi-sided markets, are digitally enabled marketplaces for directly matching buyers and sellers. The platform owner typically receives a fee from the platform users.

2. MASS CUSTOMISATION 2.0

Once, transnational supply chains were required to bring a product together and deliver it to the customer's doorstep. Today, 'on-demand' is replacing 'in-stock' as digital designs, hosted in the cloud, can be sent to the customer on request.

3. FRUGAL

'Frugal' originated as low-cost fixes in lower-income economies, where a lack of resources drives people to use their ingenuity and what they have to hand to solve their problems. It is now deeply woven into the business models of some of the world's largest companies.

4. MODERN BARTER

Exchanging goods or skills with others instead of paying for something, or using digital and alternative currencies to transact instead of central-bank-backed money is on the rise. This is as much owing to wider access to the (digital) tools to enable it as it is to a response to changing economic circumstances.

5. 'PAY WHAT YOU WANT'

Customers pay what they think is right, or want to pay, for the product or service. This can be anything from zero to an amount that exceeds the price desired by the seller. Profitability is based on attracting new customers and on the desire of customers to become a part of the success of the business.

6. MEGA-HYPERLOCAL

First-generation hyperlocal businesses are typically digitally enabled local delivery or home utility services. Next generation hyperlocal goes one stage further. Components for a product or service are (part or wholly) sourced and assembled within a local area and then also sold locally.

The 'Full Stack' framework

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Do these business models, or components of them, give companies that use them what it takes to succeed?

What lessons about business models can be drawn from thinking about the forces that shape them and those that are set to shape them further into the future?

The 'Full Stack' is an end-to-end framework to support the understanding and assessment of the value creation potential of business models of the future.

BACK-END

Waves: Waves matter because the global economy could be at the end of one technological wave and on the cusp of another period of accelerated change. Understanding this and creating the enabling environment to support the change can reduce potentially negative externalities.

Disruption: Disruptive innovation, rather than disruptive technology, forces a focus on the questions that matter rather than the latest piece of hardware or software.

Networks: Peer-to-peer (P2P) networks are allowing for a level of self-organisation and pooling of resources that are challenging long-established norms and behaviours. By doing away with the need for middlemen incumbents or centralised power structures, more and more people can benefit from frictionless, disintermediated exchange.

Limits: Limits and constraints emphasise the need for compelling alternatives to late-20th century industrial capitalism: alternatives more in line with contemporary realities expressed by positive feedback loops, and aspirations for an inclusive and environmentally conscious economy.

Socio-productivity: Methodologies for measuring social returns are calling into question long-held assumptions about how value is created. Greater rigour, comparable data and increasing adoption of these methods will further enhance this movement.

FRONT-END

Growth: Both stagnant global growth and its limitations as an indicator of prosperity have profound implications for value creation in the 21st century.

Work: New forms of work and increasing flexibility will, alongside automation, reduce the total volume of employment and the guarantees that once came with it.

Deindustrialisation: As the service sector grows to dominate emerging as well as advanced economies, the scale of the reskilling and reorganisation task facing governments will require fresh approaches.

Resources: Natural resource use patterns are shifting at the same time as exposure to environmental shocks is increasing for an ever-growing proportion of society.

Experience: From provision of a well-thought out service to providing a sense of meaning, the rise of experience as an engine of transformation has deepened the role of design in today's world.

Table 1: The back-end and front-end of the Full Stack framework

BACK-END	FRONT-END
Waves	Growth
Disruption	Work
Networks	Deindustrialisation
Limits	Resources
Socio-productivity	Experience

Given the implications of the Full Stack framework, what are the possibilities for the presented business models?

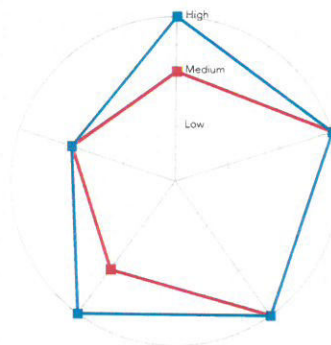
Given the implications of the 'Full Stack' framework, what are the possibilities for the presented business models?

There are a range of factors that influence their take-up, expansion and future. The 'Full Stack' provides a method of assessing certain key characteristics for each model. The models are rated across all the Full Stack layers as high, medium or low, according to how well they reflect each layer and the possibilities presented by them. This rating is a combination of collated reflections from global workshops and desk-based research.

1. PLATFORMS

Around the world, the proliferation of platform-based businesses has changed the way services are offered. Terms, including 'on-demand economy', 'crowd-based capitalism', 'collaborative consumption' and 'collaborative capitalism', are all actively used and demonstrate the complexity of the ecosystem and its all-encompassing reach

Platforms are fast-enabling an acceleration in the changing nature of work as they match buyers and sellers of work to create new types of employment. This is calling into question a number of long-held assumptions about employee rights, employer responsibilities and the role of regulation.

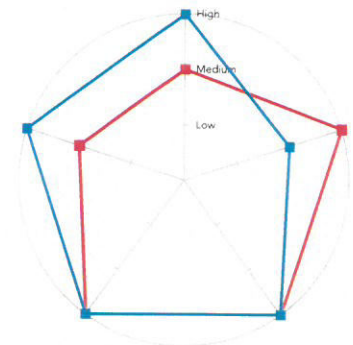


2. MASS CUSTOMISATION 2.0

Mass customisation 2.0 has the potential to upend traditional manufacturing, build new skills bases upon new centres of economic dynamism, and engender a digital-to-real-world connection based on the culture and practice of making. It is more than a manufacturing renaissance in the sense of reviving what has come before.

The appreciation of maker culture and opening up of new learning opportunities are changing norms and behaviours that

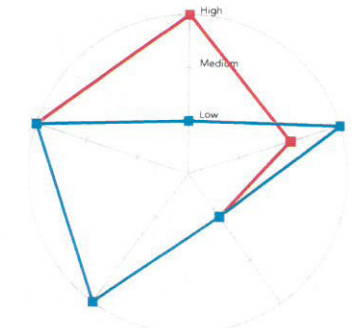
accompany the access to tools. This cultural element has the potential to ensure that Mass Customisation 2.0 endures.



3. FRUGAL

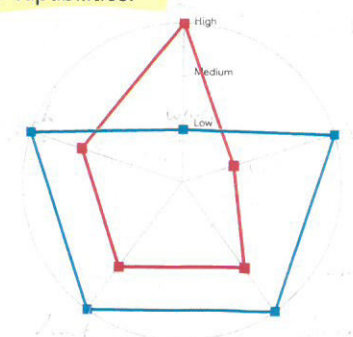
Frugal models can offer resilient solutions that champion ingenuity and creativity with a fraction of the infrastructure or resource inputs previously required.

They can apply as much to advanced economies where incomes are stagnant as to new middle classes in emerging economies with newfound access to disposable income.



4. MODERN BARTER

Sharing of underused resources, in exchange for something else, often enabled by a digital platform or alternative currencies can form the basis of new types of non-monetary exchange. It enables networks and communities to coalesce around the sharing activity in a way that a financially driven set of transactions might not permit and, where skills are being exchanged, enables providers to develop new capabilities.



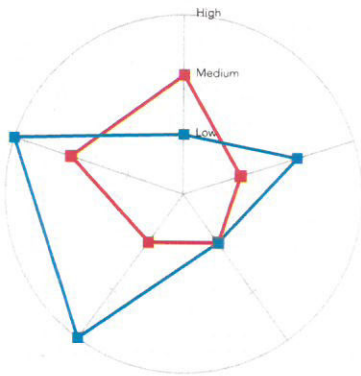
Back end
Front end

Potential for business models of the future

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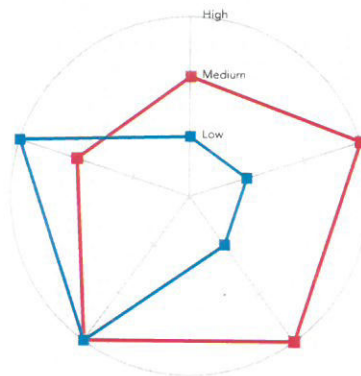
5. PAY WHAT YOU WANT

'Pay what you want' models are more than pricing strategies. They can open up access to new customers both in digital and physical spheres and allow for experimentation and market testing with new products and services. 'Pay what you want' can work as part of a dual-pricing strategy, where a service is paid for in full by most customers allowing for a selection of customers to be offered a subsidised rate.



6. MEGA-HYPERLOCAL

Business models that rely and thrive on local inputs, production and customers and that do not seek scale beyond a limited area, have the opportunity to build loyalty, trust and sustainable businesses. They also can make a meaningful contribution to local economic development and can be part of a strengthening of a range of local businesses that support each other as an ecosystem.



The role of professional accountants and recommendations

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Professional accountants, with their unique understanding of how a company works, can support new value creation through business model innovation.

Across three spheres of the business model, value proposition, value creation and value capture, professional accountants can provide a multidimensional set of skills that allow for opportunities to be realised.

Technology: Opportunities and challenges presented by technology, and what they mean for business models, require an evolving level of digital literacy and an understanding of the new interconnections between digital components of the operating environment.

Legislation: From a legislative perspective, new business models present opportunities for professional accountants to provide relevant advice on shifting regulatory landscapes that is both sector specific, and often, in an increasingly interconnected world, multijurisdictional.

Value: Professional accountants also have a key role to play in reporting on how new types of value is created. Set against the new operating environment outlined in this report, this will demand growing set of competencies. This could be related to, for example, social impact assessment, environmental accounting or other non-financial capital valuation techniques.

ECOSYSTEMS OVER SOLO OPERATIVES

Going it alone is no longer an option. From digital to physical, be it cloud-based manufacturing or mega-hyperlocal enterprises, it is ecosystems made up of people, resources and tools that in most cases make the difference and provide the potential to thrive. Recognition of the value of actors within an ecosystem and finding ways support their growth and development can be challenging when they are not directly tied to directly to a business, particularly where a new model is employed

The changing world of work provides an illuminating example. Many indications point to a future for 'gig' working that is more mutualised, where profits are more evenly shared among those doing the work who also collectively agree on wider distributions.

IDENTIFICATION AND VALUING OF RESOURCES

Valuing ecosystems also matters in relation to resources in use, such as a city's green space, its breathable air or the value of its cultural diversity. Having relationships with these resources that are not extractive but, instead generate positive returns will set businesses up for long-term, sustainable value creation.

SPACE AND SUPPORT FOR EXPERIMENTATION AND GROWTH

The six business models of the future share elements with each other and can be in use simultaneously for different products or services in the same business. For example, a platform can be used in a mass-customisation 2.0 setting and employ a type of 'pay what you want' pricing structure. Finding ways to support companies' multiple and hybrid uses, and wider experimentation with models without them fearing adverse commercial consequences would be a welcome endeavour for policy makers.

COLLABORATION AND SCALING UP

Finally, finding ways for new businesses models to emerge through collaboration between small businesses and larger corporates can enhance the prospects of both entities. The start-up can be given the tools to scale-up and the larger corporate can benefit from sharing new innovations and the entrepreneurial mindset of their collaborator.

To read the full version of the report, go to www.accaglobal.com