

Value Creation with Digital Products and Services: Value Canvas

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Introduction

Most, if not all established companies across all industries are currently busy developing digital products and services. Trying to keep up with the purely digital players, they try to complement their current business to make it more digital, create direct additional digital revenues or please boards and investors with a better equity story that puts them on par with the native digital players and startups. (For simplicity, we are using the term *product* for both *products and services* in this paper.)

With digital product development approaching an increasingly mature state in established companies, questions for the actual value created with these endeavors become louder and the need for an actual "Return On Digital Investment" (RODI) becomes stronger. CEOs, CFOs and other financiers of digital activities demand a more sober view on how these activities deliver value and proof that these investments actually make sense.

Established Companies struggle with creating Value from Digital Products and Services

While intentions and basic economic rationales are there, many companies struggle with defining what specific value these new digital products will generate for them and their current business and how. They often bounce between direct revenues ("Let's sell this app for €x per y time") and pull-through for their existing products ("We will sell just more machines.").

Because value creation is so unclear, these digital products often get much attention in the short term—when everyone believes in the overall story and that "digital" is so much better and more important than the core business—and too little attention in the mid-term—when people start realizing it may be much harder and more unclear than anticipated. That's why many digital product projects start with a lot of management engagement and (public) announcements and then lose momentum very quickly and then often fade out without real impact and ideally without anyone noticing. Thus, despite the immense opportunity for companies to create value for their core business by leveraging digital products is currently not captured.

For an established company it is much more difficult to define and embrace the value of digital products for their overall business, especially if "digital" is competing with the core business for resources and management attention, than it is for a startup that has nothing else than this very product and needs to make sure it is a commercial success. Furthermore, established companies compete with these startups and often fail to follow a clear competitive strategy to take on these new competitors. It needs structure and discipline.

Three challenges most often become the reason for the difficulty to create value:

- **Challenge #1:** Interplay of digital products with the core business is complex and unclear
- **Challenge #2:** Digital value creation models are fundamentally different from the current product portfolio and require a very different approach that goes far beyond just direct revenue and profit and is foreign to the current management

- **Challenge #3:** Digital products compete with established products for resources and attention and often lose because of their nascent state compared to core products—and often because of politics in favor of the status quo

While the overall relation between digital products and core business is a whole separate discussion, we want to focus on different ways of value creation through digital products that an established company can make use of.

Three Layers of Value Creation from Digital Products: Value Canvas

There are three layers of value a digital product can deliver for an established company that can be differentiated by how **close to the money** (i.e. measurable bottom line impact) vs. how **strategically relevant** they are. Each of these layers consists of multiple value drivers and the overall canvas helps structuring and balancing these main value drivers—depending on the purpose for which the digital product is created: Should it deliver direct revenues, make the core business more efficient or help with the company's equity story? There is no way around clarifying this to not end up in chaos.



FIGURE 1: VALUE CANVAS

- **Inner Ring: Direct commercial benefits:** A digital product can be sold for a price (according to a wide variety of charging models from pay-per-use to charging based on customer impact) or directly reduce cost e.g. by replacing a formerly manual or otherwise costly internal process.
- **Middle Ring: Indirect, but quantifiable commercial benefits:** Digital products have effects on multiple elements of the core value chain, from the customer frontend down to the production equipment. These benefits can mostly be translated into economic benefits relatively easily (e.g. higher machine utilization drives down CAPEX and production cost).
- **Outer Ring: Goodwill & strategic impact:** On a corporate level, digital products can contribute to fundamental elements of the business that are typically not directly linked to commercial impact but define the long-term success of the company. In many ways, companies struggling to monetize digital products directly rather try to link them to less measurable goodwill impact.

Direct Commercial Benefits



FIGURE 2: INNER RING

Digital products can be monetized via direct revenue generation or direct cost reduction within the core business:

- **Revenue generation:** Selling digital products for a fee (e.g. a status monitoring app for machinery users sold at a monthly fee or data generated with a digital app that can be monetized separately) is a typical attempt to monetize directly and seen by many as the most desired impact of digital products. Companies, however, often struggle to identify the right price point in relation to the actual value created for their customers and too often and too easily give up on the chance to monetize digital products directly.
- **Cost reduction:** Instead, internal cost reduction (e.g. less service effort due to a predictive maintenance solution, replacement of a manual travel expense process with an app, etc.) is often much more in focus and used to rationalize the provision of digital products to customers at no charge.

Indirect Commercial Benefits



FIGURE 3: MIDDLE RING

Digital products can impact the core business by improving the market frontend (e.g. customer satisfaction and, thus, longer or more intense use of core products) and/or the internal delivery processes (e.g. higher equipment utilization and, thus, lower cost). Many companies try to leverage digital products in a defensive way as a "must-have" without which they believe they will no longer be able to sell their core products. While it is easy to make assumptions regarding additional product sales or longer customer retentions, ensuring real measurable impact is much harder to achieve.

The five segments of indirect commercial benefits can and should be detailed out when designing the value creation approach. In general, they can be captured as:

- **Core Product Sales:** A digital product helps make the core product more attractive (e.g. via additional functionality, data and insights provision that drive more efficient usage) such that customers are more likely to buy more of it. The digital product monetizes via these additional sales or a share of additional sales are attributed to the digital product.
- **Customer Satisfaction / Retention:** Staying longer as a customer (e.g. extending the service contract, buying another machine, prolonging a credit line, etc.) can be supported and enabled by a digital product (e.g. monitoring machine status and collecting longitudinal data) and translated into profit impact.
- **Process Speed and Quality:** More internally focused, digital products can support higher efficiency and output quality, e.g. by leveraging augmented reality technology for machinery servicing or Robotic Process Automation to automate finance processes or Tableau-based reporting tools that may deliver better insights for customers but even more so create internal efficiencies.

- **Equipment Utilization:** CAPEX and investment into own infrastructure, machinery, technology can be taken to a higher level of efficiency if digital products are used to improve utilization, e.g. via a corporate internal capacity marketplaces to manage 3D printing capacity across production facilities.
- **Employee Effectiveness:** Digital products can drive employee effectiveness by improving (agile) working modes and communication (e.g. via better client communication or online customer training tools).

Goodwill and Strategic Impact



FIGURE 4: OUTER RING

- **Strategic Bets:** The pure opportunity to benefit commercially from a digital product or capability in the future is often seen as a strategic bet. Typical examples include blockchain ("We need to become a blockchain company."), AI and machine learning based service and product recommender engines.
- **Equity Story:** Capital markets value digital businesses and companies highlighting their digital agenda and achievements. Digital technology buzzwords and pure plans to build, e.g. platform businesses, blockchain business models tend to lift up multiples and company valuations.

- **Brand awareness:** Clients and the market overall will see the company as modern and state-of-the-art if digital products are visibly positioned in the market. In many ways, the early approaches of corporates to build a digital lab in Berlin to deliver some apps fell in this category.
- **Employer Branding:** Being "digital" is perceived as a driver of attractiveness for potential employees.
- **Organizational Learning:** Working with new digital technologies and respective agile development approaches is seen as a lever to develop new capabilities and expertise areas and a value in itself.
- **Technology & Data Expertise:** Trying out new technologies as part of developing digital products provides expertise and baseline know-how in these technologies for potential future applications. Additionally, understanding the importance and value of data on a corporate level is in focus here too, ensuring that this critical asset is handled in a value-adding way.
- **Ecological and Social Sustainability:** Ever increasing in importance within and beyond company boundaries, sustainability is a key area of value creation via digital initiatives and often a key criterion for share- and other stakeholders and supervisory boards.

Value Creation Archetypes: Where to put the focus?

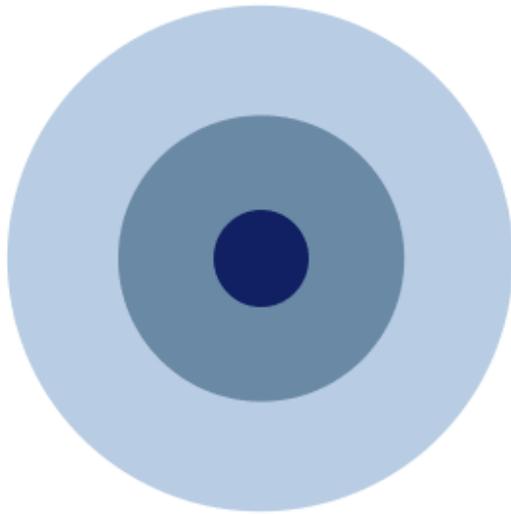
The balance between the three value creation layers and where how much value is generated can be very different, depending on the type and lifecycle of the company and the type of digital product as well as current management priorities.

In a balanced best-case scenario, a company manages to create value from digital products on all three levels to deliver short as well as long term benefits.

A company whose board has publicly announced that the company will become more digital may put more value on highlighting the impact of digital products on the equity story than on actually generating additional revenue.

A startup that has no existing core business and difficulties monetizing their product may turn to creating an equity story to attract investors.

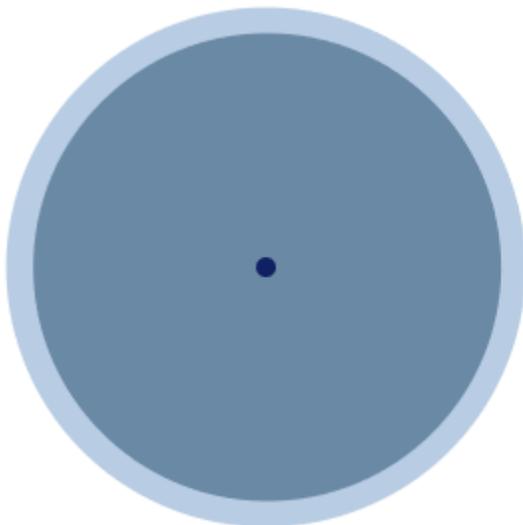
Archetype 1: Corporate with balanced Value Creation from digital products



**Established company
with balanced value
creation**

FIGURE 5: ARCHETYPE 1

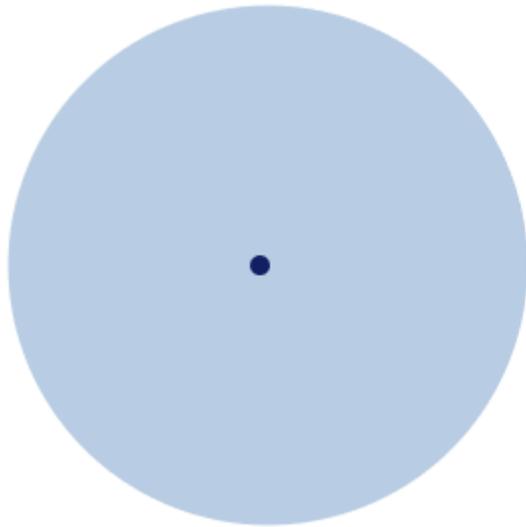
Archetype 2: Corporate driving maximum impact on Core Business



**Company to drive
maximum impact on
core business**

FIGURE 6: ARCHETYPE 2

Archetype 3: Single product digital startup company with no core business, little revenue and focus on equity story



Startup with limited revenue and mostly equity story

FIGURE 7: ARCHETYPE 3

Many more archetypes are possible and can help assess and adjust a company's approach to value creation. What the specific pattern will look like for a given company depends on management and shareholder priorities as well as technological, organizational and cultural abilities to generate different types of value. An important first step for every company is to stop the prevalent pure trial and error approach and start with a structured understanding and design of the different types of value creation from their digital activities.

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