How Business Model Coherence Unlocks Value Amid the Digital Transformation

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In an era of constant disruption and technological advances—especially related to AI—business model coherence, or the alignment of a firm's business and operating models, has become critical to successfully navigating the digital transformation and improving enterprise performance. Such coherence helps businesses stay competitive and adapt, and ensures optimal outcomes—particularly for organizations undergoing rapid digital transformation and innovation.

This article examines the common forms of business model incoherence—that is, the “blockers” that inhibit ideal business performance—and provides a framework for executives to analyze, understand, and eliminate business model incoherence in their enterprises. It is based on interviews and workshops with senior executives and supplemented by insights from advisory boards of and research groups led by The Conference Board and the University of Cambridge.

Key Insights

- **Organizations need to proactively reassess the alignment of their business and operating models to maximize performance**. Business and operating models evolve over time as organizations make operational and marketplace adjustments. These adjustments can be driven by changes in customer preferences, technological advancements, regulatory

requirements, competitive pressures, and shifts in economic conditions. When these models become misaligned, firms may face incoherence that prevents optimal performance.

- **AI and generative AI, while presenting immense opportunities, are particularly strong potential disruptors of business model coherence.** By proactively aligning AI-driven capabilities with overarching business strategies and business and operating models, organizations can enhance agility, optimize resource allocation, and unlock new revenue streams.
- **The main sources of business model incoherence—decision rights, performance metrics, resource and material flows, information flow, and partner engagement—are interconnected and equally critical.** Misalignment can manifest in various ways, such as outdated processes, a lack of collaboration between different business units, or a failure to leverage emerging technologies effectively. An integrated management approach is essential to address these challenges. Focusing on just one area without considering the others will likely fail to resolve the root causes of the incoherence.

» *For more detailed information, the full report, produced in partnership with the University of Cambridge, can be found here.*

Measuring for Success: The Business Model Coherence Scorecard

The business model coherence scorecard is a framework that measures the alignment of business model components as digital technologies are introduced. It helps to analyze how technology is either enhancing or disrupting the way a company works internally (within its own processes) and how it interacts externally (with the larger, surrounding business environment). It also addresses the “piecemeal syndrome” wherein technologies improve the efficiency of individual processes but disrupt the overall operation of the business model.

Definitions

Business model coherence is a measure of the degree of alignment between the components of a business model and operating model to achieve the core objectives of the firm. It emphasizes consistency, integration, and synergy among key internal and external elements of a business model to reduce redundancies, inefficiencies, and conflicting priorities.

Business model incoherence occurs when different components of a company's business model are misaligned, inconsistent, or contradictory. It can lead to productivity shortfalls and a failure to effectively deliver value to customers, stakeholders, and investors.

The business model coherence scorecard allows companies to see how well their business model is working by examining data from four key perspectives:

- **Physical flow:** Are raw materials and finished products and services delivered at the right time and place?
- **Information flow:** Is the information for decision-making delivered to the right individuals or systems to enable efficient decision-making?
- **Decision rights:** Is the authority to make decisions given to the right individuals or systems?
- **Incentives system:** Are the incentives appropriately aligned across stakeholders for timely and cohesive decision-making?

The business model coherence scorecard gives leaders a clear way to keep their business model stable and make sure revenue and costs remain aligned. It works alongside traditional financial reports to help drive innovation in business models, especially in the digital era.[1]

Challenges and Solutions

The Conference Board research identifies five key sources of business model incoherence. Each can be further divided into subtypes, providing a more nuanced understanding of the challenges that firms face. This detailed categorization allows firms to pinpoint specific areas of incoherence and address them more effectively, enhancing the overall performance of their business models.

Decision rights: Assigning decision-making authority affects every aspect of the business, from allocating resources to determining production quantity, and from pricing to employee evaluations. If decisions are made at the wrong level or place in the organization, they may not align with the overall objectives, resulting in suboptimal outcomes and hindering value delivery. Key decision areas include resource allocation, product development, customer engagement, data management, and partnership management.

Business performance measures: Inconsistencies in performance measures and rewards between new digital initiatives and traditional businesses, or between reactive and proactive measures, can lead to conflicting priorities and behaviors that undermine value creation.

[1] For more information see: Chander Velu, *Business Model Cohesiveness Scorecard: Implications of Digitization for Business Model Innovation*, Handbook of Digital Innovation, 2020.

Material flow: The flow of physical goods and resources is fundamental to delivering value. Incoherence can arise from changes in the type of or demand for materials needed for new digital offerings compared to traditional ones, changes in the frequency of material usage, or materials not being in the right place at the right time. This often occurs when supply chains lack the agility to react to business and ecosystem changes. Misalignment in material flows hinders the ability to efficiently create and deliver customer value.

Information flow: The smooth exchange of data and communication are critical for effective decision-making and coordination. Relevant information needs to flow to the appropriate managers to make the right decisions. A lack of information flow between a firm and its customers or among internal departments leads to misunderstandings, inefficiencies, and an inability to deliver optimum value.

Partner engagement: Successful digital transformation involves developing strong ecosystems outside the corporate walls. Misaligned engagement models that fail to balance cooperation and competition among partners can inhibit the creation and delivery of value to end customers.

Five Approaches for Managing Business Model Incoherence

There are five strategies for managing business model incoherence:

1. **Realign decision rights:** Ensure that decision-making authority is allocated to those best positioned to make timely and informed decisions. Reallocate rights and responsibilities among central and regional teams, as well as among functions, based on objectives. Ensure that information flow and performance measures are aligned with the newly designed decision rights.
2. **Refine performance measures:** Develop key performance indicators that accurately reflect business strategy and customer needs. This process will require mapping out the new processes to understand how they interact, followed by the establishment of appropriate performance standards. Additionally, it is essential to conduct a value creation exercise to identify key components that drive customer satisfaction. These tasks require significant resources to implement due to their complexity and strategic importance but form the foundation for more coherent business operations and long-term success.
3. **Improve information flow:** Implement systems for real-time data sharing and ensure that the right information reaches the right people at the right time.
4. **Optimize material flow:** Redesign material flow processes to align with new business models and to be more agile—potentially investing in new infrastructure—and streamline supply chain management. This may require significant lead time and capital.
5. **Enhance partner engagement:** Strengthen collaboration with partners through clear communication and align objectives to achieve mutual benefits. Identify the needs of partners and find appropriate win–win solutions by balancing cooperation and competition.

A case study: 3D printing requires a new business model

Let us examine an illustrative case of a home appliance manufacturer adopting 3D printing (additive manufacturing) for washing machine replacement parts. The faulty part in a customer's washing machine automatically orders a replacement from the manufacturer via an internet connection. Instead of holding a large inventory of spare parts, the manufacturer could use 3D printing technology to print the part on demand. Once the part is printed, it is shipped to the customer or a designated repair service provider for installation.

This approach could reduce inventory costs but might introduce delays due to slower production times, as parts are printed on demand instead of coming off the inventory. The potential shift in decision-making responsibility over the 3D process from the inventory and logistics team to the production team could inadvertently disrupt the established material flow and delivery timelines. Additionally, the information flow between the machine's internet connection, production, and logistics needs to be seamless to prevent further delays. However, the new process could introduce bottlenecks.

This misalignment highlights the incoherence that can be caused by changes in decision rights and business performance measures, impacting overall efficiency and customer satisfaction. The illustrative case highlights the interrelated and delicate balance among material flow, information flow, decision rights, and business performance measures, emphasizing the need for a holistic approach to manage and resolve incoherence in business models during digital transformation. With a newly designed coherent business model, replacing faulty washing machine parts can be transformed into a win–win situation: better service for the customer and increased efficiency for the manufacturer.

Concluding Thoughts

To create and capture more value, managers need to identify, understand, and manage incoherence in their firms' digital transformation journeys. A coherent business model includes elements like value proposition, revenue streams, cost structure, and customer segments. When these parts work together smoothly, the business can effectively deliver value and ensure that the company's strategy, operations, and financial goals are in sync.

Methodology

This report is mostly based on 14 semi-structured interviews with interviews from 13 firms and two workshops with 14 firms in 2022–2024 across the US, Europe, and Asia. Our interviewees include a chief research and development officer, chief innovation officer, general manager of innovation, vice president of innovation, head of commercialization, director of innovation, and founding partner, illustrating that business model innovation in the digital transformation impacts various functions. The firms operate in nine different industries—light manufacturing, heavy manufacturing, logistics, transportation, pharmaceuticals, health care, personal care, software, and finance—providing insights into common blockers across the economy.

Additionally, the report incorporates insights from other sources, including discussions within The Conference Board Councils on innovation and digital transformation; the Advisory Board of the Innovation and Digital Transformation Institute of The Conference Board; the Cambridge Business Model Innovation Research Group; and referenced research on the digital transformation, innovation, and business models.

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