



## LITERATURE REVIEW: ANALYSIS OF DIGITAL BUSINESS MODEL INNOVATION (IMPLICATIONS FOR OFFERINGS, PLATFORMS AND ORGANIZATIONS)

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### **Abstract**

This literature will discuss how to explore the main challenges for manufacturing companies that seek to innovate business models in the era of digitalization. The research method used in this paper is qualitative research based on a literature review study. The method used is empirical observation originating from information sources. First, there is an internal company survey. Second, semi-structured interviews were conducted with managers and directors of sales and product management. Based on the results of observations of the Husqvarna company case study, it is revealed that the movement towards a new business model is important to understand which services are truly in demand by the customer base. In this case, platform strategy is important because it is the key to supporting increased variety and moreover reducing costs and time in the marketing process. So companies must be able to build platforms quickly, efficiently and flexibly, especially if they have to develop a variety of products and services. This case study comes to the conclusion that organizations need to become more complex and there are many parts of the company that will change the way they work at the same time. Therefore, there is a high drive towards achieving the integration of knowledge and useful activities. So the sale of products and services is very different from the time of company management and requires the flow of new value within the company.

***Key words: Digital Business Model Innovation, Offering, Platform and Organization***

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### **INTRODUCTION**

Digitalization is a very interesting topic to discuss because the impact it has on various business models allows for transformation not only in company operations and offerings but also in how companies can interact with customers or consumers. Digitalization has greatly affected companies and almost all industries in many different ways. This is also reinforced by the term "Digital Revolution" by the World Economic Forum, which states that the digital revolution has transformed companies and almost all industries. Based on research conducted by MIT Sloan and Deloitte Management, it shows that 90% of the responses from company managers and executives are that they anticipate that their industry will be disrupted by digital trends to a large or moderate degree (Kane, et al. 2016). So there is a need to better understand the impact, as well as how managers can prepare themselves to face disruptions that may occur in the businesses and companies where they work. Based on this literature, we will discuss how to explore the main challenges for manufacturing companies that are trying to innovate business models in the era of digitalization. This literature review will be analyzed based on a single case study with senior managers at the Swedish company Husqvarna with the aim of understanding the challenges that manufacturing companies are facing in switching to digital business models. Overall there are four main challenges identified, namely related to; 1) Having a more holistic approach to customer value, 2) The need to build new capabilities as a form

of support for new business models. 3) Managing the tension between the platform's speed and focus in development of the offering and 4) changes in various parts of the company.

## **METHOD**

The research method used in this paper is qualitative research based on a literature review study in chapter 6 of a book entitled "Digital Business Models: Driving Transformation and Innovation" entitled Digital Business Model Innovation: Implications for Offering, Platform and Organization by Johan Simonsson and Mats Magnusson. Based on the research carried out in this work, the method used is empirical observation originating from information sources. First, there was an internal company survey conducted by ten individuals tasked with developing service offerings. Respondents were asked to order a predetermined number of statements by adding personal ideas. Second, semi-structured interviews were conducted with managers and directors of sales and product management. The results of the survey and interviews conducted showed a high level of agreement and simultaneously indicated four main areas that constitute the main challenges.

## **RESULTS AND DISCUSSION**

### **Company Introduction (Husqvarna Group)**

Husqvarna Group is a company that was founded in 1689. This company has a long journey in developing innovative and leading products in the fields of construction and agricultural equipment. Husqvarna is divided into three business divisions, namely Husqvarna, construction and Gardena. This company is noted to have experienced a long journey and has succeeded in shifting focus many times and switching to new and profitable product areas so that it leads to the current business area, which includes products such as chainsaws, pruners, electric cutters and irrigation products. This company is noted to be in a leading position in the global market for robotic lawn mowers.

Basically Husqvarna Group promotes the shift to battery-powered products and other industry trends as the group increases its focus on digitalization and in recent years the company has invested in the development of various offerings. For example, there are two examples of successful products, namely the Gardena Smart System and Husqvarna Fleet Service. However, the research conducted in this paper focuses on the construction division which is a global leader in the field of machinery, diamond equipment and related accessories related to the construction and stone industry. It is reported that the construction industry has not seen any innovation in work processes or products compared to other industries, but it turns out it has enormous potential. According to Gerbert, to increase productivity and efficiency thanks to digitalization, innovative technology and new construction techniques. And digitalization will influence every company development and growth process.

### **Services at Husqvarna Construction**

During the course of Husqvarna's construction business, it was found that this construction had built a leading position globally based on strong product values such as product performance, reliability and ergonomics. Emphasis on product quality has been the focus during Husqvarna's construction and product quality can compete and is always being improved. However, if we look at it from the service side, there is still evaluation that needs to be improved in developing the portfolio with solutions that follow, such as financing, service contracts and transportation management that use the products in question within the company. Based on the results of surveys and interviews conducted with respondents, several reasons why service is one of the things that must be focused on in the future. This is because there is an increase in consumer demand not only for product quality, but also for service systems and solutions that exceed the value provided when the product is used. This can be explained in detail in several points, namely:

#### **a. Customers expect offers of services and solutions from the workers**

This happens because market competition is not only related to product quality but has spread to improving the service value chain rather than product offerings. So it can be seen that business companies cannot compete in solution services. It can be explained in detail that customers have assessed the comparison between easier service as a better solution in asking about products regarding product details digitally compared to always having to ask offline at the place where the product is sold manually/in the shop. This is also related to the fact that this service solution is also useful in facing the risks of becoming a pure commodity supplier.

#### **b. The risk that employees will become commodity suppliers**

The quality of customer satisfaction is recorded as the main driver in future business development and growth as well as a related increase in company revenue. So that customer assessment can be increased if the product becomes more integrated and can be adapted to the market or what is needed by the business's target market. So it can be seen that customer satisfaction is one of the points of the company's long-term development. Customers will remain loyal to companies that can help customers solve more problems and issues they face when planning to buy the company's products.

When viewed from the customer's perspective, this helps customers to be more productive and the services provided help manufacturers to better customize product offerings so that there is positive customer satisfaction and trust. Internal benefits are also very visible in service, namely the development of better products along with data collected based on products that are often actually used. This also provides knowledge and developments in the company's mindset regarding whether the product is actually used in the field, which will be beneficial for internal product development. So the lesson can be learned that the more products that have

been sold, the more, stronger data is available for the company's product development research department.

### **Holistic Customer Value Approach**

Customer service provides very good benefits, but what must still be instilled is that product quality remains a priority for the company. Customer preferences remain more about product quality with service as added value that provides comfort and convenience for customers. Even though digital services are friendlier and easier for some people, there are still customers who prefer to use traditional or manual methods or buy and pay for products directly at company outlets. According to Tongur and Engwall, 2014, the servitization approach is an attractive thing in manufacturing companies, but in practice, realizing service solutions to customers is a difficult step because it requires new work adaptations and knowledge in product-centered company service innovation, which is a point that must be considered for quality.

### **Platform Versus Speed and Autonomy**

The platform strategy is a solution to reduce costs because the way it works is shared between product links while also limiting the level of freedom for technicians in developing products because technicians have to work with standard components and systems. The platform is a solution that requires all products to be arranged in a structured manner and there is connectivity as a general platform approach. This suggests a trade-off between autonomy and platform strategy. Solution services or *servitization* increasing encouragement of the use of product platforms to enable certain types of services and speed of development. Because of this, someone is needed who has a general idea about product or service development. According to Kane, 2015 Digital fluency does not require mastery of technology but requires the ability to articulate the value of digital technology for the company's future. So, the challenge in implementing servitization is how to manage the tension between increasing development speed and the need for autonomy to move quickly and on the other hand, using a sufficient platform requires comprehensive, efficient and fast efforts so it tends to take a long time.

### **Organization or Company**

Changes in service offering systems will drive changes in the organization. Based on empirical studies conducted, the main challenges in companies are innovation, sales and product management. Based on the research results, companies must take into account the large level of local and customer interaction as well as centralized facilities and coordination. With the services offered, salespeople must always provide services in explaining the benefits and value of a service or designing a practical way to display it. So it can be seen that the fundamental change in service is a way to change the sales process so that the organization or company must have the courage to make decisions to increase competence and work methods based on the function of the change and there must be a central division to oversee changes in work methods and lead the change.

## CLOSING

### Conclusion

Based on the company's case study, Husqvarna reveals that moving towards new business models is important to understand which services the customer base is truly interested in. As per the case study manufacturing companies need more than just maximizing product performance but starting to understand how different services can be used. In this case developing and offering more advanced services requires more capabilities than if there were more basic offerings. So in maintaining customer trust, all value ambitions must be supported by the necessary capabilities or in other words well facilitated. Companies must be able to provide sophisticated integrated solutions in developing competence and system integration to design and integrate systems consisting of hardware, software and services. In this case, platform strategy is important because it is the key to supporting increased variety and moreover reducing costs and time in the marketing process. So companies must be able to build platforms quickly, efficiently and flexibly, especially if they have to develop a variety of products and services. This case study comes to the conclusion that organizations need to become more complex and there are many parts of the company that will change the way they work at the same time. Therefore, there is a high drive towards achieving the integration of knowledge and useful activities. So the sale of products and services is very different from the time of company management and requires the flow of new value within the company.

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