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HOW CAN DIGITAL LEADERS HELP

**THEIR PEERS IMPLEMENT
NEW BUSINESS MODELS**

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Discussion Documents

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HOW CAN DIGITAL LEADERS HELP THEIR PEERS IMPLEMENT NEW BUSINESS MODELS

This article is written by [Mark Samuels](#), Chief Editor at CIONET UK, and [Roger Camrass](#), Director of Research at CIONET International. The content is based on CIONET UK's Third Community Event of 2024. The event was held on 17 April at EY, 1 More London Place, London. The event was sponsored by CIONET UK business partners, including EY, Hitachi Vantara, Infogain, CloudBees, Entelect, Thoughtworks, Orange Business Services, and Cognizant.



The context for the event

The half-life of FTSE and S&P businesses continues to shrink to years rather than decades. Recent research from CIONET suggests there are two options: modernise the existing business or develop new entities around the core. In this event, we heard from distinguished CIOs who have implemented new business models within and outside the core. These responses were considered during the evening's Keynote and Panel Discussion.

Keynote: Benoit Laclau, UK & Ireland Managing Partner, Consulting at EY

Roger introduced Benoit and asked a series of questions about new business models.

1. What forces require traditional enterprises to change their business models?

Benoit described three forces: changing customer requirements, technological advancements, and the environment. For the first force, he said we live in an age of instant consumption. Tomorrow is too late; we want food, films and even our partners now.

He then talked about the rapid pace of technological advancements. It took decades to get telephone lines into homes, two decades to get the internet, and two months for Open AI's generative AI technology ChatGPT to reach 100 million users. The pace of change is incredible. Most of the world's data was created during the last two years.

Benoit then referred to the overall environment. Sustainability is crucial, and there are other important regulatory and economic forces, such as new frameworks, high inflation rates and the end of cheap money. We're in a post-COVID age where employees have new requirements and fresh demands.

2. What options are most important when considering new business models?

Benoit said there are two options: modernise your model by developing partnerships and creating spinoffs or redesigning your existing model. He referred to the book 'Find Your Lightbulb' by Mike Harris and gave the example of First Direct. Executives at Midland Bank wanted to create a business where customers could contact the bank on the move. However, legacy technology and people processes meant driving change was difficult. The bank established First Direct as a pioneering business model to meet new customer demands.

Benoit then referred to examples from his career. Digital leaders must recognise it's hard to create a new business model, including changing the organisational culture. Developing strategic partnerships with external firms is one way to help foster spin-offs.



3. How have traditional businesses modernised the core?

Visionary leadership is crucial to successful modernisation. Built infrastructure and human resources challenges can stifle modernisation efforts. Think carefully about how your business will deal with transformational change, especially when it's likely to be brutal.

Benoit gave the example of Netflix and referred to co-founder Reed Hastings' book on the company, 'No Rules Rules: Netflix and the Culture of Reinvention'. The video-streaming giant started life as a DVD mail-out business. Netflix modernised its core business through its exceptional talent.

Attract and retain talent by paying people what they want. Equally, deploy radical candour. Don't be afraid to let people go if you can't afford them. Then, once you have the best people, decentralise control. There's no point employing the best people and paying them big bucks if you don't empower them to drive change.

4. How have other businesses created new entities?

Benoit gave the example of Octopus Energy. The company wanted to ensure it was meeting fresh customer demands. It created a new set of high-touch customer interactions. The business built a software-based cloud solution known as Kraken. Kraken is a revolutionary energy platform that uses AI and machine learning to support faster and better service.

Octopus Energy is now one of the UK's biggest energy suppliers. However, the real boon is Kraken. The company sells software to other companies around the globe via a new business model. This success means Octopus is now a platform business and not just an energy company. As with Netflix, the company has focused on recruiting the best people. People want to work for Octopus because it operates at the cutting edge of emerging technology.

5. How can you determine the right time for business transformation?

Get the basics right. Transformation isn't possible if you don't have access to great people. You can't go wrong if you surround yourself with talented, diverse and curious people. In many ways, businesses need to put employees first and customers second. Give your staff everything they need, and they will do everything to help your clients.

Second, spend time and money looking forward and not back. Evidence suggests that 80% of business leaders spend too much time looking back. Too many projections on the future of the business are still based on data from the past. Benoit encouraged attendees to think differently. He took CIOs on a tour of China to see the country's leading-edge approach to electronic vehicles. CIOs were inspired and took lessons back to their businesses.

Finally, be curious about other industries and geographies because you can learn lessons from unexpected places. You can find golden nuggets when you look outside your sector for inspiration. Find out who's taking an innovative approach in traditional industries.

6. How can CIOs introduce an innovative culture that encourages continuous reinvention?

Business transformation starts with technology but goes much further. Benoit reflected on his experiences and provided five lessons for attendees:

1. **Visionary leadership** – Be clear, innovation-driven, and the company's leading voice on technology.
2. **Invest in talent** – Create a diverse and curious team that does things for you.
3. **Develop a failure-embracing culture** – Let people know it's OK to fail fast. Not every innovation will succeed, so know when to kill something.
4. **Collaborate** – The world is moving quickly. If you don't work with agility, you won't be able to introduce an innovative culture.
5. **Develop an ecosystem** – Work out where your business holds a competitive advantage. Then think about how to share resources with other organisations to reduce costs.

Panel discussion

Roger convened a panel on new business models with four industry experts:

- **Kayte O'Neill**, Chief Operating Officer (COO) and board member – National Grid ESO (NESO)
- **Tarun Kohli**, Managing Director, Group Delivery Services, Swiss Re, and Chairman, Swiss Re Solutions AG – Swiss Re
- **Dylan Edwards**, Senior Programme Manager – Network Rail
- **James Lewis**, Technical Director – Thoughtworks



Kayte O'Neill, Chief Operating Officer at National Grid ESO (NESO)

1. How is NESO emerging from its parent company?

As COO of NESO, the National Energy System Operator, Kayte is helping to define a new operating company that is being spun out from the National Grid. NESO will be owned by the government and provide a platform for all types of energy distribution across the UK. It will operate as a digital, data-driven organisation rather than an asset-based business.

Kayte set the context for change by explaining how the energy transition is taking place on multiple fronts. The technology market is moving quickly. New providers are entering the sector to deal with customer challenges. Sustainability is also crucial. Unlike in the past, people are keen to talk about the environment.

National Grid operates across the US and UK and owns multiple assets. Kayte said National Grid also has an organisation that focuses on how to maintain operations in the future. This data-led and people-focused organisation is being spun off as NESO. This spin-off will create an arm's length body that provides an independent, sector-wide view of the energy transition.

2. What are the challenges of moving from an asset-rich to a data-driven organisation?

National Grid will remain an asset-rich business. NESO is a spin-off organisation with a new set of drivers and opportunities. NESO is unencumbered by private sector priorities. It will ensure people and data come together to dial up sector-wide perspectives on energy operations. Achieving these aims will require a cultural transition and a new set of skills.

3. How will NESO act as a platform to stimulate markets and create value?

Kayte said NESO is a platform business and an enabler. The organisation will provide insights and enable people within the energy industry to make decisions in areas from long-term strategic planning to operational concerns at a local and regional level.

She said value must be considered from a customer perspective. For example, where is it appropriate to electrify, and where can we move from gas to hydrogen? Fresh challenges and customer demands come thick and fast. An independent, data-rich platform business like NESO can consider those challenges. The organisation is looking for opportunities to collaborate and create advantages.

4. How can NESO ensure it is responsive to changes in the energy market?

The energy sector in the UK has ambitious goals, particularly on sustainability and decarbonisation – but the consumer must be part of the transformation. Kayte said NESO has the potential to deliver significant value to customers and will pursue a significant cultural change agenda to ensure its aims are achieved.

Tarun Kohli, Managing Director, Group Delivery Services, Swiss Re and Chairman, Swiss Re Solutions AG (Ltd)

1. What was Swiss Re's rationale for creating new business models?

Swiss Re's purpose is to make the world more resilient. The firm's core business of risk transfer takes care of only a limited portion of all the risks that corporates face. Its software solutions widen the firm's offering beyond the core by helping corporates take control of their holistic risks. The company has developed software solutions to manage a variety of risks that corporates face, such as supply chain risks, property-related risks due to natural catastrophes, climate-related risks, etc.

2. How can strategic partnerships help digital leaders create new business models?

The successful companies of the future will be digital businesses. CIOs can't innovate on their own. Digital leaders must identify partners who will help them co-create products. Think carefully about the potential benefits for you and your partners, whether nimble start-ups, hyper-scale providers or big-name consultancies.

Focus on how you will work with these partners to identify challenges and create solutions. Start from the business problem and use mature technology to solve these challenges. Use this technology to ingest disparate data and develop insight.

3. What are the biggest challenges CIOs will face as they scale up?

CIOs must recognise that spin-off businesses require a different culture. Think about how you can starve innovation to unleash creativity. For example, creating a software business means selling like a software business. Ensure customisation is minimised. Also, ensure customers are willing to pay money for your products. Your customers must have skin in the game.

4. How can CIOs manage the business transformation journey?

Tarun said CIOs should think of themselves as business leaders. Remember these three things:

- Technology plus business is a deadly combination.
- Don't focus on digital strategy. Instead, refresh the business strategy for a digital world. The world has changed, so what strategy does the business need?
- Don't underestimate culture. Technology is the easy part of transformation. Also, don't be scared. Educate the board about how to use technology to generate value. Give them examples of how to create money and they will be delighted.



Dylan Edwards, Track Transformation Director at Network Rail

1. How has the Rail Hub project delivered great results?

Dylan said Network Rail has a mantra that employees must return home safely. The organisation created a task force to protect employees through standards and technology. Rail Hub ensures information is collected electronically rather than being stored on paper.

The Rail Hub project involved radical work. Dylan's team work quickly and effectively with other parties. He said CIOs must recognise the importance of failing fast and initiating cultural change. Rail Hub provides an auditable trail. Processes have been streamlined. End users have a simple, data-rich system.

2. How has the workforce responded to new ways of working?

The Rail Hub project means employees across the business now use iPads rather than referring to paper records. This business can continue to introduce other apps once tested. Dylan said CIOs build trust with their colleagues by satisfying their requirements. He advises other digital leaders to immerse themselves in the business before building technologies. It takes hard work to gain the trust of others. You can lose that trust in seconds if the solution isn't right.

3. Where should CIOs focus their efforts during digital transformation?

Dylan said technology is the easy part of change. Business transformation is likely the hardest element. Never think of technology in isolation as you might have the wrong answer. Be open to suggestions from end users. If you immerse yourself in the business, you might take a different direction. If you do, that's great. Adjust and learn as you go.

James Lewis, Technical Director at Thoughtworks

1. What are the shortcomings of modern software platforms?

James referred to Thoughtworks' [Technology Radar](#) report, which explores how companies use technology. New trends have emerged during the last few years, including generative AI. The good news is companies are moving from a legacy mindset to a focus on the future.

He talked about the rapid pace of change in fast-emerging economies, such as India and China. Businesses in these countries can move quickly because they are not held back by the legacy infrastructures that restrict traditional enterprises in the West. However, CIOs should be wary of adopting new technology via legacy working practices. The key to innovation success is people. The biggest tech firms hire great staff and get out of their way.

2. Do boards understand the legacy IT problem?

It's vital to understand that a large-scale transformation project will take much longer than 18 months and often requires many years. James said these lengthy timeframes mean it makes sense to spin up a new company on the side of an existing enterprise. These spin-up companies will be unencumbered by the legacy challenges that plague traditional firms.

3. What disruptive technologies are reaching the market?

James referred to Thoughtworks' Looking Glass publication and said the surge of interest in generative AI is the visible manifestation of the long-term development of AI. Interest in generative AI will drive investments in Silicon Valley for the next few years. This trend is accompanied by a brain drain from big firms to start-ups.

Pioneering agent-based generative technologies could help us to complete tasks quickly and effectively. However, CIOs should be wary of generative AI hyperbole. Thoughtworks' research suggests many companies using generative AI could have got similar or better results from other technologies. Customer input is crucial. Put your people into the business and co-develop solutions to intractable challenges.



Conclusion of the event

Attendees asked questions about the potential of generative AI, the evaluation of business models, and the impact of AI on new business models. Roger then thanked the speakers and EY for hosting the event. He also thanked CIONET's business partners.



Authors



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A pioneer of today's Internet as an ARPA research fellow at MIT in the seventies, Roger has spent over fifty years helping corporations harness the power of new technologies such as AI, cloud, mobile communications, e-commerce, voice recognition and satellite. He was a partner at EY responsible for e-commerce during the dot.com boom. He is a Cambridge University and MIT graduate and a visiting professor at the Hebrew University in Jerusalem.

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Mark is a business writer and editor, with extensive experience of the way technology is used and adopted by CIOs. His experience has been gained through senior editorships, investigative journalism and postgraduate research. Editorial clients include the Guardian, The Times, the Sunday Times and the Economist Intelligence Unit. Mark has written content for a range of IT companies and marketing agencies. He has a PhD from the University of Sheffield, and master's and undergraduate degrees in geography from the University of Birmingham.

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