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THE LUX SUSTAINABLE BUSINESS MODEL PLAYBOOK FOR MANUFACTURING



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The full Inspire Report provides actionable insights on how to succeed at sustainable business model innovation in manufacturing and is an exclusive deliverable for Lux Research and Advisory Services members.

Foreword

Inspire Reports are an exclusive deliverable of Lux Research and Advisory Services. The genesis of why we created these Inspire Reports was to inspire, to illuminate, and to ignite your thinking.

At Lux, our research focuses on our clients' top priorities and key initiatives, helping you solve for the incredibly challenging dilemma you are faced with today between driving profitability and achieving your corporate sustainability goals.

The insights, frameworks, and recommendations in these reports are designed to help you see your company's innovation paths forward more clearly and make decisions with confidence.



CLARITY

These reports are designed to address executive, C-level, and board-level discussions related to sustainability and carbon neutrality. We are placing technology in the context of these incredibly daunting business issues you are trying to solve.



PERFORMANCE

Lux has the most powerful network of innovators in the world across energy, manufacturing, and consumer packaged goods. These reports bring forward this cross-industry knowledge, enabling you to tap into our experience and learnings from working in that ecosystem and supporting best-in-class leaders, to drive higher performance of your own teams.



TRUST

Lux's research is trusted because it's based on a rigorous methodology and peer-review process — so executives can use it with confidence to support critical business decisions. We don't call these reports *content* for no reason: They are research. Vetted, tested, and peer-reviewed research and analysis.

I hope you find our Lux Inspire Reports inspiring and helpful to support the conversations, thinking, and decisions you make every day to grow your company and solve for sustainability, carbon neutrality, and the long-term resilience of your business.

Change the world.



Marisa Kopec

President and Chief Research Officer

EXECUTIVE SUMMARY

Achieving sustainability and growth requires new business models, not just technology innovations

Manufacturing companies looking to improve their sustainability performance while still delivering revenue and profit growth face a dilemma. Their traditional business models are inherently based on producing and selling physical products, which will increase environmental impact and resource consumption with growth, even if efficiencies or alternatives mitigate the effects. However, they can avoid the horns of this dilemma by using alternative business models, besides physical product sales, wherein revenues or profits can grow without increasing impact — or even in ways that help improve sustainability across the value chain.



However, developing and executing novel business models are inherently challenging and often less familiar to innovation teams than conventional technology and product development. To that end, this report addresses three key questions:

1

What are the categories and types of novel business models that can be used to help a company grow sustainably?

2

How should a company choose which business models to pursue to meet its economic and sustainability targets?

3

What challenges do innovation leaders need to overcome to successfully implement these business model innovations?

Innovation teams at manufacturing companies need to make business model innovation a part of their sustainability strategies, as well as incorporate the capabilities and skills needed for business model

innovation into their technology roadmaps and talent development plans. If they do, they can gain a competitive edge and help achieve the sustainability ambitions that can be a struggle to accomplish otherwise.



THE LUX SUSTAINABLE BUSINESS MODEL PLAYBOOK

Many innovation leaders are aware of the growth potential that alternative business models can provide and their potential to help achieve sustainability goals. However, in our discussion with clients, we find many are uncertain about how to develop new business models and face two major questions:



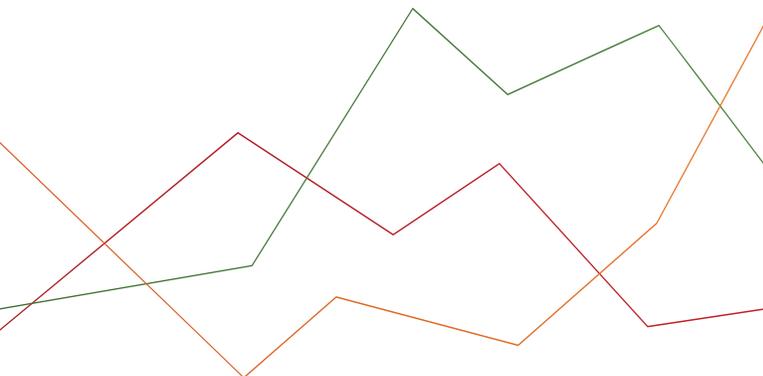
What alternative business models *can we use?*

Innovators can see examples of novel business models here and there from industry peers, as well as many intriguing examples from business-to-consumer and disruptive digital players like Uber and Airbnb. However, they lack a comprehensive view of the business model innovation landscape and don't know which options might apply to manufacturing businesses.

Which business models *should we use?*

While innovation teams have well-developed processes for choosing which R&D projects to back or identifying which target markets to prioritize, they often don't have good tools for selecting novel business models, leaving efforts somewhat ad hoc.

With these challenges in mind, we've developed the Lux Sustainable Business Model Playbook, which includes a taxonomy of alternative business models that are relevant to sustainable innovation in manufacturing industries as well as a framework for aligning them to organizational goals.



USING THE LUX SUSTAINABLE BUSINESS MODEL PLAYBOOK

Once innovation leaders understand the taxonomy of potential business model innovations, they still need to decide which ones to pursue. Doing so first requires selecting which strategic approaches they want to prioritize, in terms of both business impacts and sustainability impacts.

NOTABLE BUSINESS IMPACTS THAT NOVEL BUSINESS MODELS CAN DELIVER INCLUDE:

Cost savings. Does the business model generate value by lowering overall costs through eliminating waste or redundancies or by enabling optimization?

Reduced friction. Does the business model generate value by reducing transactional or operational friction, such as automating or cutting out manual steps or better aligning incentives?

Improved resiliency. Does the business model generate value by enabling the overall value chain to better flex and adapt to changing conditions or customer demands?

ON THE SUSTAINABILITY SIDE, BUSINESS MODEL INNOVATIONS CAN FACILITATE APPROACHES TO:

Resource efficiency. Does the business model generate value by reducing energy or materials consumption or waste generation without reducing output?

Adoption of alternative inputs. Does the business model generate value by enabling use of alternative energy, feedstocks, materials, or components?

Process change. Does the business model generate value by facilitating adoption of novel processes with inherently lower impacts?

POTENTIAL BUSINESS MODELS	VALUE CREATION						SCORE
	BUSINESS GOALS			SUSTAINABILITY GOALS			
	Cost savings	Reduced friction	Improved resiliency	Resource efficiency	Alternative inputs	Process change	
Decision support							3.3
Vendor-managed operations							3.7
Customer platforms							3.6
Product as a service							3.3
Selling credits							2.6
WEIGHTING	30%	20%	10%	20%	10%	10%	

These categories are just examples: Each organization may have its own different or more specific goals — such as increasing market share in a given segment or reducing capital intensity on the business side or lowering emissions or increasing recycling rates on the sustainability front. Selecting targets and assigning relative weights to each, then assessing

the likely impact of each relevant business model on each goal on a 1–5 scale can produce an overall score that prioritizes business models to pursue that can facilitate growth aligned to a corporate sustainability strategy. The figure above shows an example of how a hypothetical organization could use the playbook to select business models.



About Lux

Our mission is to advise leaders about commercially viable science and technology to enable sustainable innovation. We deliver research and advisory services to inspire, illuminate, and ignite innovative thinking that reshapes and grows businesses. Using quality data derived from primary research, fact-based analysis, and opinions that challenge traditional thinking, our experts focus on finding truly disruptive innovations that are also realistic and make good business sense.

The “Lux Take” is trusted by innovation leaders around the world, many of whom seek our advice directly before placing a bet on a startup or partner — our clients rely on Lux insights to make decisions that generate fantastic business outcomes. We pride ourselves on taking a rigorous, scientific approach to avoid the hype and generate unique perspectives and insights that innovation leaders can’t live without.

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