

STYBEL PEABODY & ASSOCIATES, INC.



Laurence Stybel, Ed.D., and Maryanne Peabody, MBA, founded Stybel Peabody Associates, Inc.

Is Your Company Ready for the C:B Business Model?

**What U.S. Leaders Can Learn from China's
Success.**

Ming Zeng received a Ph.D. in international business and strategy at the University of Illinois. His first role was Assistant Professor at INSEAD, one of Europe's top business schools. China's technology company Alibaba's founder Jack Ma invited Ming to become Chief Strategy Officer of the firm. Ming Zeng thus has solid footing in Western and Chinese ways of doing business.

Zeng's book, *Smart Business* (2018), has the following objective:

"I do not want to increase Western apprehension about China, especially when so much anxiety is already unwarranted. Instead I want to shine a light on China's extremely relevant and enlightening experience."

B: B; B: C; and C: B

Most Western leaders understand the difference between a Business-to-Business (B:B) revenue model versus a Business-to-Consumer (B:C) model.

The real world is more complex. For example, Is health care delivery in the U.S. B:C or B: B? The answer, of course, is "Yes."

Ming introduces us to a third business model.

He calls it Customer-to-Business or C: B.

Consider Dell Computer:

A customer could go to dell.com and select the specific components she wanted in her next personal computer. She designed the computer she wanted to purchase from a list of online specifications.

Once the "send" button was pressed, a complex information system went to work to ensure supplies were ordered, manufacturing time was scheduled, delivery systems established, and payments received.

Ming calls this C: B because the customer is the prime mover. Under the Dell business model, each PC is customized and yet it also is a mass production system.

Each Dell PC was made to order and yet it was also a mass production system. The Internet is used to achieve scale.

In this early version of C: B, Dell owned or tried to own as many of the key components of the production-delivery system as possible. Amazon is a modern U.S. version of the C: B model. The customer is the prime mover. Every order is unique and yet it is a mass production. Amazon seeks to own

as many of the key components of the delivery-production system as possible or wants customers to work through Amazon.

A Modern Chinese Version of C: B

Entrepreneur Zhang Linchao, 25 years old, is the face of China's online clothing brand, LIN Edition. She is a social media influencer, a model, and a fashion designer.

At 3:00 p.m. on a spring day, Zhang's company placed 15 new clothing pieces designed by her on sale. Customers have seen previews of today's sale on Zhang's social media.

By 3:45 p.m., 10,000 items were sold at an average price of U.S. \$150 per order.

Like Dell, each order will go through a complex supply chain to ensure that customers receive the item specified. Each order is unique to the customer and yet it also is mass produced.

Unlike Dell or Amazon, however, Zhang's company does not own the supply chain or even control it.

Zhang provides the creativity and the social media presence.

In the first four months of 2015, her company earned U.S. \$11 million in sales with a profit margin of 30%.

Alibaba provided Zhang with a front-end customer facing system and then coordinated all the order information to its network of small businesses manufacturing companies and delivery systems.

Unlike Dell or Amazon, Zhang does not control the delivery system. Alibaba does not control the system. Everything works through information sharing and social coordination.

How has this C: B system worked for Alibaba?

Alibaba is the largest retail commerce company in the world. More than 10 million merchants run their businesses on Alibaba's platforms

and most of these operations are small. Alibaba connects these small businesses to a network of 400 million active buyers. Each year, Alibaba's Chinese retail marketplace generates gross merchandise volume of more than U.S.\$0.5 trillion.

This C: B model is a network of buyers, sellers, and service providers coming together and coordinating with each other through real-time data. The Alibaba model is all about using machine-learning and social networking to achieve scale and to manage complexity in a C: B world.

This is a different model from the U.S.-centered framework. That model views scaling-up through command/control of as many components of the customer delivery system as possible.

The author states:

“Alibaba does not by any means have everything figured out. Its notions of strategy and organization have diverged dramatically from traditional models and are producing previously unthinkable levels of growth.”

A Real World Example

Stybel Peabody provides leadership development and retained search for health care delivery systems. United States Health care is a complex business model that contains B: C, B: B, and C: B.

We are seeing consolidation of health care delivery systems to produce greater efficiency and cost savings. We are also seeing the gradual erosion of independent physician practice groups as physicians are encouraged to become employed cogs giant health care delivery systems. Command and control is the order of the day in the United States.

From our perspective growth, achieving higher levels of command and control is achieved at the cost of increasing the risks to the central authority associated with system failure/human error.

A highly public horrible patient experience in one component of the health care system will impact the credibility of the entire system.

Growth through data sharing and social networking with independent entities could also establish similar growth with less enterprise-wide risk. A problem with one component of the system is a problem with that component. It does not necessarily infect other components of the enterprise.

Implications for Leaders

You do not necessarily have to agree with the ideas of this book. You should, however, be aware of them. How can you grow without increasing command/control?

One clear implication is that strategic planning needs to move away from something that looks good on a PowerPoint to the idea of strategy being constant learning and experimentation. And that is not common practice in the U.S.

Using data and social networks to “figure it out as we go along” sounds less robust to Directors on Boards but that is exactly what may be required. The flow between what is internal versus what is external is going to be more fluid. Flexibility is going to replace rigid hierarchy. Rapid responsiveness to changing customer needs to exist along with consistency.

The fundamental problem we see in health care delivery is that as scale-up is achieved through centralization you also reduce the creativity and innovation that made the system great to begin with.

The Alibaba C: B model is something worth considering.

Does your company have the ownership structure to think C: B?

Culture change requires a commitment of 3-5 years at a minimum. And during those 3-5 years, “mistakes” need to be reinterpreted as “learning opportunities.” Is the Board ready to make such a long-term commitment and revise its compensation policies to reflect that commitment?

McDonalds is a useful U.S. example of this in action:

The legendary fast food chain makes it clear in written publications that it wishes only long-term investors to purchase stock. Traders are encouraged to make investments elsewhere.

Moving to a C: B model requires boards of directors to think about attracting and retaining long-term investors. For example, if the goal is rapid top line sales growth over three years and then get acquired, the Board should not bother with a C: B model.

How will your company talent management system change?

At present, many U.S. schools do a fabulous job of turning out conscientious students well suited for mid-20th century manufacturing companies. A focus on school systems scoring well on standardized tests only exacerbates this tendency.

In the rapidly changing C: B world of social networks and information systems, one wonders if the education system is providing companies with candidates who can be adaptable/open to change?

Companies are starting to be less impressed with degrees and are more interested in job candidates showing evidence of continual learning/curiosity as measured by certificates of completion in specific topics of interest.

Summary and Conclusions

Author Ming Zeng has the following equation for a C: B enterprise: Social Network Coordination + Data Intelligence=Smart Businesses.

Should your company leaders be thinking along these lines as well?

References

M. Zeng. **SMART BUSINESSES: WHAT ALIBABA'S SUCCESS REVEALS ABOUT THE FUTURE OF STRATEGY.** (2018) Boston: Harvard Business Review Publishing.

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Stybel Peabody provides companies with “leadership and career success” for valued senior level talent. Core services include retained search (Board members, CEOs, COOs, CFOs), leadership development coaching, and executive-level outplacement.

For a free 15-minute consult, contact:

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