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# The portfolio puzzle

Balancing multiple business models for maximum value

Has your business grown overly complex? Or do you face the opposite problem, with over-standardization stifling growth and differentiation? While navigating evolving consumer preferences, new technologies that fundamentally change how businesses operate and regulatory uncertainty often dominates the headlines, managing internal complexity is an equally critical strategic imperative. Today's CEO is often the leader of a single firm but, in practice, oversees many different component businesses and business models (different offerings, value propositions, capability models, etc.). This diversification is often positive—it can improve resilience and growth—but it comes with a downside, often in the form of additional complexity.

To help ensure that your 'portfolio premium' continues to outweigh your 'portfolio costs,' it is essential to assess and optimize how you manage your business models.

**What is a business model?**

While there are many different definitions for "business model," in this article we use the following definitions:

**Business model:** Describes how an organization positions itself to create, deliver, and capture value. It consists of three core components: a value proposition (how a company creates value for its customers), differentiating capabilities (how a company optimizes performance), and a monetization model (how a company makes money from its offering).

**Multiple business models:** Describes how a single organization manages multiple business models with different capability systems under the same overall management team, regardless of organizational structure (e.g., single vs. multi-business unit).

Operating multiple business models is, in many ways, today's industry standard. This is especially true of large, mature organizations. More than 80% of Fortune 50 companies span multiple business models.[1] Many technology firms that became known for a single product have long since expanded into a range of products and services and into adjacent industries. What are often referred to as national "health insurance companies" are actually well-diversified firms with 25% to 75% of revenues coming from other offerings.[2]

### Why companies operate multiple business models—and the challenges they may face

Today's rapidly evolving business landscape necessitates continuous innovation and adaptation. Companies are increasingly adopting multiple business models to drive top-line growth and improve enterprise valuation by broadening market reach, unlocking new revenue streams, fostering innovation, and improving efficiency. When effectively integrated, these business models can form an "advantaged portfolio"—one that is strategically sound, value-creating, and resilient.

An "advantaged portfolio" enables faster responses to shifting industry trends, insulates businesses from market volatility, and ensures long-term stability. Such a portfolio generates a "portfolio premium," in which the overall enterprise value exceeds the sum of its individual businesses.

At the same time, managing multiple business models with inherently different capability systems introduces a "portfolio cost"—the strategic investment and management attention required to oversee and integrate different business models. Missteps in managing this cost—which can lead to diminished returns—can take many different forms, including:

- Underinvesting in portfolio cost by managing all business models uniformly, often based on the needs of its dominant business model. This approach stifles the potential of distinct models and overlooks the nuances required to enable each business model to thrive.
- Overinvesting in portfolio costs by introducing unnecessary complexity such as separating business units, which introduces higher overhead costs, inefficiencies, and lack of synergy, when the scale of the business doesn't warrant it.
- Prioritizing short-term operational gains or the performance of individual business units over long-term enterprise objectives. This tendency undermines the strategic intent and overall value of the portfolio.
- Failing to evaluate the compatibility of business models as part of the diligence process when acquiring a new entity. Misalignment between the acquirer's and target's business models can lead to diminished enterprise value, as operational and strategic friction emerges post-merger.[3]

Successfully managing multiple business models requires a deliberate approach, recognizing the distinct needs of each business model, aligning each business model to the long-term enterprise goals, and ensuring the business models work together to maximize value.

Understanding and strategically managing portfolio costs can transform them from mere expenses to value-enhancing tools.

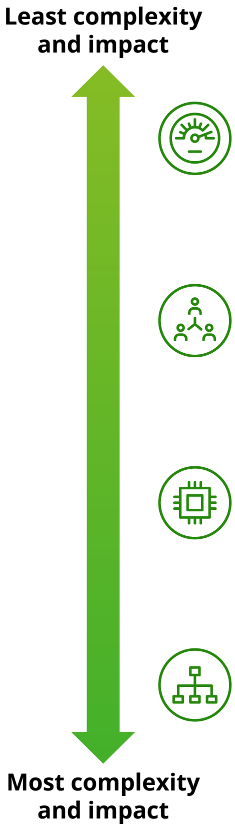
### Strategic levers to enhance portfolio cost

This involves setting strategic objectives for each business model based on "where to play" and "how to win" decisions and then tailoring the capabilities, infrastructure, and management systems to align with the specific strategic objectives of each model.

For example, a business focused on high-volume, low-margin operations may require a distinct set of capabilities that anchor in low cost/efficiency, compared to one centered on premium, personalized customer experiences. A well-executed strategy can help ensure the benefits of multiple business models outweigh the costs of running them, optimizing outcomes, and achieving portfolio premium. Getting this right, however, can be challenging and involves continuous management by exercising a host of levers that supports the success of each individual business and the overall organization.

**These levers can be summarized across a scale of complexity that offers proportional reward:**

Figure 1: Strategic levers to optimize portfolio cost




**Metrics:** Utilize different sets of metrics to measure how well each business is performing (incl. operational, financial, CX)

**Incentives:** Leverage incentives or compensation metrics to drive desired behaviors among employees, aligning their actions with organizational goals and objectives

**Technology:** Develop technology enablement solutions that provide greater visibility into business operations, allowing for differentiated management approaches and enabling microlevel decision-making (e.g., targeted sales strategies for customer segment)

**Business org structure:** Establish independent business units with distinct leadership and reporting lines, particularly for businesses that are relatively equal in size or have achieved a certain level of scale

To manage the complexities and optimize the potential of each business and the entire organization, it is necessary to understand the specific advantages, disadvantages, and suitable contexts for implementing these strategies. Depending on the size, nature and complexity of the business, companies may benefit from pulling multiple strategic levers to promote innovation, efficiency, and growth.

## Metrics

Metrics provide a straightforward, cost-effective way to measure performance and efficiency across different business models. They are easy to implement and offer clear, quantifiable insights into the performance of each business under a portfolio. For example, a company operating two businesses, a hardware manufacturing business and a maintenance/repair business, can implement separate sets of metrics (e.g., inventory metrics for the hardware business versus service delivery metrics for the maintenance/repair business) to measure performance and efficiency across both businesses.

However, their impact when used in isolation is limited as they do not incentivize behaviors or drive significant organizational change. Metrics often focus on past performance, potentially hindering innovation and hence requiring balanced integration with other levers.

**When to prioritize this lever:**

Since metrics are relatively easy and less costly to implement, companies should prioritize this lever when one of their business models is relatively small compared to the other(s) or is relatively new.

### Incentives

Incentives align employee actions with organizational goals by tying rewards to clear metrics, fostering transparency and accountability. They are relatively low-cost and can significantly boost performance across each business model under the portfolio. For instance, when a physician practice operates two models, one of which is regular fee-for-service, where patients are charged a set price for every visit and the other which is value-based care, where physicians are paid a set amount to help manage patients' health. While these two models can both involve seeing similar types of patients, they require different types of incentives (i.e., efficiency and total volume of visits is a primary driver in a fee-for-service model, while patient retention and decreased downstream hospital visits will drive success in a value-based care offering).

However, implementing different incentive programs in an organization to cater to different business models introduces complexity and requires careful design and execution to avoid misalignment. Incentives can drive a performance-oriented culture but need to be well-integrated across the organization.

**When to prioritize this lever:**

Incentives should be prioritized for business models that have become increasingly important to the portfolio and have distinct requirements to enable outcomes, and/or need behavior changes to avoid disaggregation between connected business models.

### Technology

Technology investments offer substantial benefits, including integrated views of the value chain and data-driven decision-making. They enable decision-making and management of complexity at a microlevel to service different product and customers. For instance, a skin care ingredient manufacturer can operate a standard formula product that it offers as a low-cost profile along with some custom formulations for specific customers as premium products. Though these products may sit in the same portfolio, the ability to shift the margin profiles and service delivery model is made seamless with technology to support various offerings such as pricing, product availability, fulfillment, etc.

These benefits, however, can come with prohibitive costs, long-term commitments, and the need for rigorous change management. Successful implementation demands substantial investment in the form of process standardization and maintenance but can significantly drive efficiency.

**When to prioritize this lever:**

Technology should be prioritized for business models that have differences that are deeper in the organization (e.g., product line/customers) and require customization to enable microlevel decision-making.

### Business org structure

Enhancing business org structure improves governance and decision-making speed within each business model under the portfolio. It also enables clear accountability and ownership for each P&L, thus making it suitable for companies operating business models that are independent. For instance, a company with two independent models—one automotive manufacturing and the other financial services—would have distinct strategic goals and operational processes across both models, and would benefit from choosing the business org structure lever.

However, this comes with higher costs and greater complexity. This could also unintentionally create siloed operations and a lack of collaboration. Business units can drive performance but require significant investment and oversight to help ensure alignment and avoid fragmentation.

**When to prioritize this lever:**

Business org structure should be prioritized either for core businesses that are independent and do not share value chains/customers or for business models that have achieved a level of scale and require distinct leadership and autonomy.

Figure 2: Comparison of the strategic levers

| | Metrics | Incentives | Technology | Business org structure |
|---|---|---|---|---|
| Pros | • Easy to implement<br>• Relatively low cost<br>• Lightest change | • Relatively low cost<br>• Encourages transparency and accountability<br>• Aligns management systems to strategy | • Allows for integrated enterprise-wide view of end-to-end value chain<br>• Enables decision-making and management of complexity at microlevel to service different products/customers | • Allow for stronger governance and clear objectives within each business unit<br>• Clearer accountability and ownership over P&L<br>• Faster decision-making within individual business units |
| Cons | • Least impact<br>• Doesn't change ways or working to support the desired outcomes<br>• Potentially overlooks the need for innovation and new value creation | • Increases complexity of the existing incentive system<br>• Difficult to execute if distinct business model owners sit at low levels<br>• Large change management effort | • Expensive, multi-year effort with rigorous change management<br>• Typically requires process standardization to be successful (but not to the point of diminishing returns)<br>• Requires upgrades and maintenance; if not designed well can accrue tech debt | • High cost and effort (incl. increased operational and management costs)<br>• Longer time horizon for implementation<br>• If not designed well can lead to siloed operations, reduced collaboration, and brand dilution |

## Where to start

Effectively managing multiple business models demands a deliberate and strategic approach:

1. Assess your existing business model(s): Examine whether your existing business model(s) still align with evolving customer needs and market dynamics. Are there signs, through customer feedback, competitor movements, or shifting industry trends, that your value proposition, capabilities, or monetization model should evolve?

2. Benchmark your investments: Evaluate how your organization allocates resources across business models. Are you investing in proportion to the strategic importance and growth potential of each?

3. Clearly define each business model: Explicitly identify and name the distinct business models your organization operates forward. Clarify their scope and contribution to the enterprise. This naming creates a shared language across teams and helps distinguish strategic priorities.

4. Clarify intent and interdependencies: Articulate the role each model plays in delivering enterprise value. Are they designed to operate independently, or do they benefit from integration? This understanding will inform decisions around governance, talent, and operating models.

5. Determine what's needed for the portfolio: Assess the right levers to employ to help each business model thrive in the portfolio—stitch together the "Portfolio Puzzle."

6. Develop and activate execution plans: Design tailored execution roadmaps for each model, considering metrics, incentives, technologies, and org structures that will set each business up for success.

## Maintaining strategic agility

Business models are not static. Customer preferences, industry structures, and enterprise strategies evolve, and with these so should your portfolio of business models. Ultimately, managing multiple models successfully requires intentional orchestration.

Whether through metrics, incentives, advanced technology, or organizational structures, with the right strategic levers in place, companies can unlock the full potential of each business model, fueling growth, resilience, and long-term value creation.

The goal is to enhance performance while minimizing complexity and cost.

# Endnotes

1. Monitor Deloitte, Fortune 50 analysis in 2025.
2. Health insurance company 10K's, 2024. Non-health plan revenues include health services, care delivery, pharmacy, and PBM.
3. Gagan Chawla et al., "Finding equilibrium: Managing business model compatibility in A&D deals," Deloitte, February 17, 2018.

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