MAKING BUSINESS MODEL INNOVATION HAPPEN

by Marc Sniukas
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PART 1 PROVIDES AN INTRODUCTION TO THE GUIDE, WHAT YOU CAN EXPECT FROM IT, INFORMATION ABOUT THE AUTHOR, A SHORT SUMMARY INCLUDING SOME BEST PRACTICE EXAMPLES.

Why Business Model Innovation matters

About the author

Welcome to the Forum

The knowledge
Why Business Model Innovation matters

While the concept of “business model” has emerged during the new economy boom of the mid-1990s (e.g. Demil and Lecocq 2010; Leavy 2010; Magretta 2002; McGrath 2010; Teece 2010; Zott et al. 2010), it has since evolved past its original domain of e-commerce to become a central element of many companies’ strategies.

Here are some examples on why business model innovation matters:

• Companies focusing on Business Model Innovation outperform their industry peers in terms of operating margin and Total Shareholder Return.¹
• Business Model Innovation is the main driver of competitive advantage of companies like Southwest Airlines, Amazon, ArcelorMittal, or Apple;
• New business models have been key to commercializing many new technologies;
• Depending of the life cycle of your product, Business Model Innovation might be the only hope you have;

THIS IS WHAT YOU CAN EXPECT FROM THIS GUIDE
Despite the importance of Business Model Innovation, and the obvious benefits to be gained from it, established companies still struggle to make it happen. This IM Action Manual will provide you with:

• A framework to describe your business model in three easy steps;
• A process to start and drive Business Model Innovation within your company;
• An overview of tools and how they can be used in Business Model Innovation;
• Practical advice on how to get started on a low scale.

ABOUT THIS APPLIED INNOVATION MANAGEMENT™ GUIDE

Applied Innovation Management™ is a series of guides for those wanting to learn more about creating value with innovation management. The guides are created in collaboration with experts in the field of innovation management from leading companies, business schools and universities.
About the author

Marc Sniukas is a principal at Doujak Corporate Development, where he consults to executive teams on issues of strategy, innovation, strategic renewal and organizational transformation across a wide range of industries. He has worked with major corporations in Europe, the US, Canada, Latin America, Saudi Arabia, the UAE, Turkey, China and South Africa.

Besides his corporate work, he has also run courses at leading business schools including Stanford’s Graduate School of Business, the Boston University School of Management, and the European Business School London and he is currently researching Business Model Innovation as part of Manchester Business School’s doctoral program. His mission is to help organizations make strategic innovation for growth and renewal happen.

Why should organizations improve their innovation management skills?
- Sound innovation management skills in all areas, products, services, process, management models and business models, are necessary to stay competitive in the long run. Without the necessary and vital capabilities there is no way to make success sustainable. It will remain pure luck.

Why are you interested in innovation management?
- I believe that both, individuals and organizations, need to constantly develop, reshape and transform themselves to stay in the game, whatever that might be. Innovation is the way how we break away from our paths to become something new.

Welcome to the Forum

The InnovationManagementForum.com provides a platform and channel of communication exclusively dedicated to innovation management. You are also invited to discuss questions that you might have about how to implement the knowledge presented in this article in your organization. This is a valuable opportunity to exchange experiences with likeminded and with colleagues from around the world. The author of this article will also take part in these discussions.

www.innovationmanagementforum.com (open and free for everyone)
IN BRIEF
Business Model Innovation is about transforming key elements of your business or inventing completely new ways of doing business. A first key element is to describe your actual business model along the three main questions of who your customer is, what are you offering and how are you doing this. To drive Business Model Innovation in established companies you will need a clear process, with clear tasks and a dedicated team driving the efforts. Tools can help, but they are not enough. The process and the allocation of resources are crucial. This manual will outline key questions to describe your business model and show how a five step process of setting the stage, discovery, development, conceptualization and commercialization can be used to drive Business Model Innovation within your organization.

IN PRACTICE
In March 2008 the US metal rock band Nine Inch Nails launched their seventh album. ‘Ghosts I-IV’ made revenues of $1.6 million within the first week of its release. While this might not seem very spectacular as such, one has to consider that Nine Inch Nails did not work with a record company. They split with their label in 2007 just before launching the album. Neither did they sell the album on iTunes. The album was, in fact, available as a free download on Nine Inch Nails’ website. And it is still available today under a ‘Creative Commons Attribution Non-Commercial Share Alike’ license. Just like the following album, ‘The Slip’, is.

Pause for a moment and think about it: here is a rock band that does not rely on the traditional distribution channels of its industry, and not even on the modern one, gives its core product away for free and even encourages sharing, while still making a respectable revenue. In the meanwhile other bands and musicians have been suing fans for sharing music illegally and record labels are struggling to remain profitable.

This is one of the many examples of enterprises changing the way they do business and challenging the traditional rules of their industries.
PART 2 PROVIDES A DISCUSSION OF SOME OF THE CHALLENGES RELATED TO THE SUBJECT OF THIS GUIDE. IT INCLUDES EXAMPLES AND A THEORETICAL FRAMEWORK FOR UNDERSTANDING THE MECHANISMS RELATED TO THE CHALLENGES OF BUSINESS MODEL INNOVATION.

Business Model Innovation on the Agenda
What is Business Model Innovation?
The challenges of Business Model Innovation in established companies
Business Model Innovation on the Agenda

While Business Model Innovation seems to be fairly easy for entrepreneurs, start-ups and industry newcomers, it appears to be harder to achieve for established companies. Yet it is possible. The question is how to make it happen. The first challenge companies are facing is to develop a common understanding of their actual business model.

WHAT IS A BUSINESS MODEL ANYHOW?

Before you can start reinventing your business model, you need to understand what it is. Whereas the business model concept so far lacks a clear definition and conceptual base and there is a rather diverse application of both, the concept and the term, over the last two decades a lot of frameworks for describing business models have been developed. These frameworks try to break a business down into a manageable number of building blocks. Some can do with four such blocks (e.g. Johnson), others have 9 (e.g. Osterwalder) or 10 (e.g. de Mey and de Ridder).

Basically the business model describes how the pieces of your business fit together. It explains how value is created and delivered to the customer at which cost and how the company generates revenues from doing so.

No matter what framework you prefer (at the end of the day they are all variations of the same thing, i.e. a business), the building blocks answer three main questions:

1. **Who** is your customer?
2. **What** is your value proposition, i.e. are you offering your customer?
3. **How** are you doing this?

Let’s have a closer look into each of these questions and try to identify the core elements of each category and how you can describe your business along the three dimensions.

**GRAPH 1.**
WHAT’S YOUR CUSTOMER?

Which customer segments do you serve?
The term customer is used broadly here. It can include business customers or end customers, different segments, regions, mass market, niche markets, high-end, middle or low end. Or maybe you are diversified and serve unrelated segments. Instead of describing your direct customers, you might want to think about the real end customer, who is finally using the product. It might also be worth to think about who is buying the product, who is influencing the decision, who is paying for it and who is finally using it. After having described the segments you serve, the next step is to describe their needs and job to be done. Try to describe your customer segments in quantitative (size of segment in terms of number of customers, total sales, average sales per customer, profitability, ...) and qualitative (needs, behaviors, attitudes, satisfaction, ...) ways.

WHAT ARE YOU OFFERING?

What is your customer value proposition? The value proposition is about what products, services and solutions you offer your different customer segments. It can be formulated in terms of what need is fulfilled or what problem is solved for the customer. Customer value propositions can be described as individual products or services or as bundles. In case you sell more than one product, you might want to think about the underlying need or problem all of your products or services fulfill. Additionally you can map the different offerings to the different customer segments. Maybe the products and services fall into several categories serving different needs? Usually your value proposition goes beyond the mere product or service, and will also include additional service offerings for example, the ease of getting hold of your offering, the affordability, etc.
**DEscribing your value proposition**

- Which products, services, solutions and experiences do you offer your customers?
- What are the main features of your value proposition?
- What kind of supporting products, services and solutions are you offering along the core?
- Are you offering any bundles? Which ones?
- What needs does your offer fulfill?
- What is the job that your products and services help your customers to get done?
- What problem do your products, services and solutions solve for your customers?

**how are you doing this?**

The “how” question refers as much to how you organize yourself to create your value proposition, as to how do you reach the customer and how you capture value.

**How do you create your value proposition?** What are the key activities you perform? Key activities can include processes like for example: market research, design, research, product development, sourcing, manufacturing, recruiting, training, IT, licensing, marketing, sales, etc. What are your key resources and assets? Key resources can be physical, intellectual, human, financial, tangible and intangible or special capabilities you posses (e.g. people, technology, equipment, information, access to certain channels, exclusive access to partnerships and alliances, brands, …). Who are your key partners, alliances and suppliers? Suppliers can be defined as those who fulfill steps in the value chain that your company has decided to outsource. Partners offer additions and act on a horizontal level as opposed to suppliers who act on a vertical level. Alliances are coalitions with competitors in certain areas.

**How do you deliver your value proposition?** How do you reach the customer? Delivering the value proposition is as much about how and where you sell as about how and where you reach your customer. Which channels do you use in which stages of the buyer experience?

**How do you capture value?** Revenue models and payment streams can come in many fashions from many sources: Sales, licensing, renting, leasing, pay per use, subscription fees, payment is received upfront or afterwards, who is the payer, etc. How do you price your offer: Fixed or dynamic, low, competitive, high, targeted to the masses, is there a list price, per unit, value based, using different types of auctions, etc?

How you answer these questions defines your cost base and revenue streams, thus your margins and ultimately the profit your business will make (what Johnson calls “the profit formula”). What are the main cost drivers? Which key resources, activities, partnerships,… are the most expensive?
Using the business model concept to describe your current business is a first step, but it is a rather static use of the framework. A second approach is a more transformational and dynamic view. This second view, the Business Model Innovation approach is important for a number of reasons:

- New ideas and technologies might require new, innovative business models to be commercialized successfully (Chesbrough 2010; Gambardella and McGahan 2010; Teece 2010). The same idea or technology taken to market using different business models might even result in different economic results (Chesbrough 2010).
- New, innovative business models have become a key driver of differentiation and competitive advantage (e.g. Hamel 2001; McGrath 2010; Teece 2010) and they can even lead to the dramatically changing the way of ‘playing the game’ in an industry and industry structures (e.g. Christensen et al. 2002; Gambardella and McGahan 2010; Markides 2008), the creation of new markets (e.g. Hamel 2001; Markides 2008) and even completely new industries (Teece 2010).
- As Moore (2004) has shown, different stages of the “market development life cycle” require different types of innovation. Once markets start to decline, focusing on Business Model Innovation becomes the vital driver of company success.

What is Business Model Innovation?
Business Model Innovation comes in two fashions:

1. Business Model Innovation applied to an existing business is about transforming elements of the existing business model. These transformations can be evolutionary or revolutionary.

   • Business Model Innovation applied to the invention of completely new business models. Such innovations tend to be radical, meaning they depart from how business is done in a particular industry or in general.

The literature argues about the degree of novelty required to qualify as a Business Model Innovation: Do they have to be new to the world, new to the industry, or simply new to the firm? ‘New to the firm’ innovations are probably in most cases not enough to raise profits and gain a competitive advantage over industry peers.

**BUSINESS MODEL INNOVATION APPLIED TO EXISTING BUSINESSES**

**The Nine Inch Nails** are an example of Business Model Innovation applied to an existing business in a rather radical fashion: NIN departed from the traditional model of creating value (no more record company), delivering the offer to the market (no more record sales in retail stores) and how it captures value from its customers (no more sales of the basic version of the core product, but rather relying on enhanced versions like deluxe packages).

**McDonald’s McCafé** is an example of a more continuous evolution of its business model. McCafé is about a new way of utilizing one of McDonald’s core assets, its stores, as well as one of its key capabilities, running a retail network. The stores are used to introduce a new value proposition to customers, thus enlarging not only the potential market for McDonald’s but also the share of wallet of existing customers. The recent innovation for McDonald’s has been the introduction of the new ‘McCafé & Salade Live’ restaurants currently being tested in France, thus again using key assets and capabilities to further grow its business.

**BUSINESS MODEL INNOVATION AS INVENTION OF COMPLETELY NEW BUSINESSES**

**Mercedes Benz’s Car2Go** mobility concept is an example of a Business Model Innovation that has created a completely new business and business model in the car industry. The Car2Go concept changes the way cars are being “consumed” today, departing from the traditional models of ownership and conventional car rental. Car2Go offers customers the possibility to have access to a car for as long as they want for an annual fee. There is no specific return time and place. Customer can book cars ahead, pick them up in a location nearest to them and park the car anywhere when no longer needed. This new business model departs from the traditional retail model and might be the future of how we consume car travelling.
The challenges of Business Model Innovation in established companies

While the above examples show that Business Model Innovation is possible, like any kind of organizational change and transformation it is often hard to achieve, especially if the necessary capabilities, processes and routines have not been developed yet.

Particular challenges are:

1. **Business Model Innovation Challenges**: Business model innovation is a very specific type of innovation, requiring a different approach to innovation management, different processes, tools and the classic stage-gate models seem not to apply (Koen et al. 2010; Markides 2008). The risk and financial uncertainty with Business Model Innovation is higher than with other types of innovation (Koen et al. 2010; McGrath 2010), especially also because business model innovations have potentially an impact on the whole business (Baden-Fuller and Morgan 2010).

2. **Organizational Challenges**: The business model concept being relatively new and not well understood, coupled with the need for a distinct approach needed to Business Model Innovation make it hard for companies to have the necessary ability, which is lacking within companies (Chesbrough 2010). Organizations simply do not have any experience and knowledge regarding this type of innovation (Koen et al. 2010; Markides 2008). Another challenge for the organization is the danger posed by Business Model Innovation, not only because of the high risks involved as seen above, but also the danger the new model might pose to the established business (Chesbrough 2010). There is also disagreement in the research whether new business models need to be operated by a separate company (Koen et al. 2010).

3. **Individual Challenges**: On an individual level challenges are related to the mental models, or cognitive maps, of managers and employees within the company. The dominant logic of ‘how things are done around here’, how value is traditionally being created and captured is hard to break (Chesbrough 2010; Markides 2000, 2008). These mental maps define how the organization competes (Kim and Mauborgne 2005), who it considers being its customers, what to do and what not to do.

To overcome these challenges the literature on Business Model Innovation stresses the importance of experimentation. While experimentation might be a key step, my experiences working with companies have shown that a lot happens before management even starts thinking about experimenting with new business models. And it doesn’t stop with experimentation either.
PART 3
METHODOLOGY & PRACTICE INSIGHTS

THIS PART DESCRIBES THE PROCESS OF BUSINESS MODEL INNOVATION IN FIVE DIFFERENT STEPS AND PROVIDES HANDS ON GUIDANCE ON HOW TO WORK WITH BUSINESS MODEL INNOVATION. FURTHERMORE IT PRESENTS TWO CASE STUDIES FOR YOUR INSPIRATION AND SHARES SOME IMPORTANT MISTAKES TO LEARN FROM.

The Process of Business Model Innovation
Case Study 1
Case Study 2
Having creative ideas is easy and most people and organizations are not bad at it. But implementing these ideas and turning them into successful innovations in the market is much harder. This is the domain many companies struggle with. This is even more so when innovations are not only about products and services – these can be easily tested and we have many processes, tools and theories at our disposal. What is also special about Business Model Innovation is the need to first discover opportunities for innovation, before developing ideas on how to seize these opportunities.

**STEP 1: SETTING THE STAGE**

- **Define purpose, scope and focus:** The first step in the Business Model Innovation process is to clarify what your goals are, and why you want to or need to engage in this kind of innovation. Do you want to change elements of the existing model? Are these changes supposed to be incremental or radical? Do you want to launch a completely new business? The top team needs to agree on a common view before the organization can productively and effectively engage in the process and necessary activities. Setting the stage also includes agreeing on the concept and working definition of a business model to be used in the organization.

- **Define and build team:** Set up the team and the organizational structure for running your Business Model Innovation initiatives. A good team consists of 5-7 people, usually from throughout the organization with diverse backgrounds. It pays to have people representing key areas of your business, e.g. sales, manufacturing, finance, etc. Some companies also decide to have a senior level sponsor and maybe also a steering committee, in charge of final decision-making.
• **Define process and project plan:** Although it is often said that creativity and innovation cannot be organized, this usually is not an option for most companies. The stage gate process presented here (see graph 3) for example emerged from working with customers, who were uncomfortable with the idea of only having a rough process. Define a process fitting your organization and the level of detail you need to feel comfortable. As Business Model Innovation naturally has a high level of uncertainty, agree with top management about when and how they want to be involved for updates and decision-making.

• **Define goals and metrics:** What are your overall goals in terms of revenues, EBIT margin, etc. that you want to achieve? You should also define goals for each of the various stages. What do you want to achieve in each phase of your project?

**STEP 2: DISCOVERY**

The main purpose of step 2 is to seek and discover opportunities for new markets, new value propositions and new ways of doing business.

• **Describe your current business model:** Start with answering all the questions outlined above: Who is your customer, what are you offering, how are you doing this. Tools like the Osterwalder Business Model Canvas, or IDEO’s Business Model Framework can help to summarize and visualize your actual business model. What are your strengths? What assets, resources and core competencies do you have within your company that you can leverage?

• **Describe the industry:** Using tools such as Porter’s Five Forces describe the dynamics of your industry.

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**25 WAYS TO REINVENT YOU BUSINESS MODEL**

1. Challenge industry assumptions
2. Offer complementary products and services
3. Offer solutions and experiences
4. Offer bundles
5. Switch your appeal: functional versus emotional
6. Focus on the job to be done
7. Selectively eliminate, reduce, raise and create
8. Look at substitutes
9. Expand the use of your assets and capabilities
10. Look at the customer experience
11. Target non-customers
12. Target less profitable customers
13. Target the least satisfied customers
14. Target the chain of buyers
15. Segment according to commonalities
16. Segment according to circumstances
17. Desegment the customer based
18. Reinvent the customer interface (channels)
19. Reinvent your customer relationships
20. Invent new revenue streams
21. Price differently
22. Reinvent you cost base
23. Re-assess your key activities
24. Collaborate with suppliers, partners, the network and ecosystem
25. Look at completely different industries
• **Describe the market:** Digging deeper into the market, outline not only existing customers, but also non-customers. What is the total market? Which offerings are out there? Using tools like Xplane’s Customer Empathy Map outline what customers’ needs are. Outline the buyer experience using the Blue Ocean Strategy Customer Experience Cycle. Outline your offer against that of other company’s and substitute offerings using the Blue Ocean Strategy Value Curve.

• **Describe future trends:** What is going on around you? Which trends are likely to impact your industry, your customers and your business? Use tools such as the PESTEL analysis to structure the trends looking at Political, Economic, Social, Technological, Environmental and Legal trends.

**STEP 3: DEVELOPMENT AND DESIGN**

*Now comes the creative part! Based on the insights gained in step 2, you develop an idea portfolio that includes ways you could innovate your business model.*

Ideas can come from many different places both within and outside of your company.

Inside ideas can be generated using common brainstorming techniques, running creative workshops, or using idea management software. Participants can come from your own business unit or from across business units. You might also want to include current customers, non-customers identified above, network partners or industry experts.

Outside ideas can come from external innovation sourcing channels like sponsored research, open innovation, co-sourcing with network partners, etc.

Tools to describe the business model, customer profiles, value proposition and the buying experience can be used to visualize the future state. Once you have developed ideas, an initial evaluation and prioritization will lead to a portfolio of business model innovation ideas you can test in step 4.

**GRAPH 3.**
### Areas

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<thead>
<tr>
<th>Areas</th>
<th>Key Questions</th>
<th>Rating</th>
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<tbody>
<tr>
<td><strong>Strategy</strong></td>
<td>How well does the idea fit with our current strategy?</td>
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<td></td>
<td>What is the strategic purpose of the idea?</td>
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<td>- expanding or defending a current business</td>
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<td>- building a new one that has already been identified</td>
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<td>- laying the foundations for potential new businesses</td>
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<td><strong>Organization</strong></td>
<td>Resources &amp; Competencies</td>
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<td>- Which do we need?</td>
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<td>- Which do exist already?</td>
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<td>- Which need to be build?</td>
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<td>Change need</td>
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<td>Change readiness</td>
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<td><strong>Finance</strong></td>
<td>Revenue potential</td>
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<td><strong>Financial Implications</strong></td>
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<td>Cost (fix + variable)</td>
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<td>Unit Margin Target</td>
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<td>Cash Flow</td>
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<td>Paybacks</td>
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<td>- long term &gt; 3 yrs</td>
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<td><strong>Innovation</strong></td>
<td>Potential for disruption</td>
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<td>How innovative is the new model?</td>
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<td>- Known to company and industry</td>
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<td>- Known to industry, new to company</td>
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<td>- Known to company and industry</td>
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<td><strong>Key risk factors</strong></td>
<td>Competition</td>
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<td>Weaknesses</td>
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<td>Threats</td>
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<td>Expected blocks / hurdles to implementation</td>
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<td><strong>Key success factors</strong></td>
<td>Strengths</td>
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<td>Opportunities</td>
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Many of the ideas you will have developed are likely to be based on assumptions. It is crucial to question all of your ideas and ask which information they are based on and to distinguish whether the ‘information’ is a fact, an opinion or an assumption. Make a list of all the assumptions and specify how you will test them in the next phase. (For a detailed description of how to develop an assumption list, see McGrath and MacMillan “Discovery Driven Growth”, Harvard Business Press, 2009.)

**STEP 4: CONVERSION**

The fourth step in the Business Model Innovation process is about putting your ideas into practice and turning them into innovations in the marketplace. The goal is not to fully launch the business model innovations yet, but to test your ideas within a limited scope to determine whether customers like the innovation, accept it and are willing to pay. The basis for your tests in the market is the assumption list you have developed in step 3. Each of the assumptions need to be tested in the market to get feedback and some real, hard data. Often it’s a good idea to test innovations in markets and business, or with products and services that don’t perform. This step is the most important, as innovations will have to be tweaked and changed. Some ideas will work, others will not; it takes some time experimenting to find the best ideas and make them fit together in a system.

### IS IT A STRATEGIC EXPERIMENT?

**TEN CHARACTERISTICS**

1. “They require departure from the corporation’s proven business definition as well as its assumptions about what makes a business successful (i.e., they require forgetting).”

2. They leverage some of the existing assets and capabilities of the corporation (i.e., they require borrowing — they are not simply financial investments in startups).

3. They are not simply product-line extensions, geographic expansions, or technological improvements that enhance proven businesses.

4. They target emerging and poorly defined industries created by non-linear shifts in the industry environment.

5. They are launched before any competitor has proved itself, and when there is no clear formula for making a profit.

6. They have very high potential for revenue growth (for example, 10x over 3-5 years).

7. They require development of at least some new knowledge and capabilities.

8. They are led by general managers who face multiple dimensions of uncertainty across multiple functions. Potential customers are often mere possibilities. Value propositions are often just guesses, because customers themselves have yet to figure out exactly what they want. The value chain and underlying technologies for delivering the new products or services are often unproven.

9. They are expected to remain unprofitable for several quarters or more. They are too expensive to repeat.

10. It can remain difficult to know whether the experiment is succeeding or failing for several quarters. Feedback is delayed and ambiguous.” (Govindarajan and Trimble 2005: 48)
**STEP 5: COMMERCIALIZATION**

Step 5 is where you take the business model innovations that have been successfully tested and tweaked to make them work, and scale them up. These innovations are implemented across the whole organization using a suitable change strategy. Sometimes new business models can be implemented in the existing organization; sometimes you might need to launch a new venture. In step 5 you can rely on proven market launch techniques and conventional business development.

As with any serious organizational change, using a proven process for designing, testing and implementing your new business model will greatly improve your chances of success. Setting up such process requires commitment and dedication from the top management and the organization. It is crucial to allocate the necessary resources (usually at least one full time project manager, plus time for people throughout the organization) to put the process into place and drive the various tasks.

**GRAPH 4.**

- **Assessment #1:** Using the content dimension questions, does the idea have the potential to radically challenge the current industry logic?
  - Yes
  - No

- **Assessment #2:** Draw the strategy canvas and strategic innovation profile. Do these pictures look like a radical departure from competitors and offer true differentiation?
  - Yes
  - No

- **Assessment #3:** Does the idea pass the strategic experiments characteristics test?
  - Yes
  - No

- **Assessment #4:** Implement the experiment and gain new insights. Is it accepted by the market? Does it offer superior value? It is profitable?
  - Yes
  - No

Draw the final strategic innovation profile and strategy canvas, using feedback from stakeholders and implement.
A division of an industrial company wanted to identify new opportunities for growth and develop first ideas on how to seize them. To start, division management met to establish a common understanding regarding the vision and growth targets. In a follow up workshop, about 20 managers from throughout the division gathered for a 2-day workshop to brainstorm on possible alternatives. Using the tools and 25 ways outlined above, they first described the actual business model for the various segments and customer groups identified and set out to develop ideas on how to innovate the existing business model. Next, teams for various opportunities identified were created and they set out to discover more insights. Having gathered more data, a third workshop was organized to review the data and select the most promising opportunities. To make a selection, a variation of the criteria presented was used. After having selected the top ideas, the implementation of these was done via the regular strategic planning and budgeting process.
The family owner of a holding company wants to diversify and extend its businesses. To finance the creating of the new divisions, the existing ones need to double their EBIT margin. To reach both these goals, business model innovation becomes the central theme in the divisions' development process.

To start the process and set the stage, it was decided to use the annual group meeting, where the global top 120 managers from the various divisions and business units come together, to hold a Future Space; a 2 day large group event to develop ideas for innovating the existing business models and developing ideas for completely new businesses. First we worked with the newly created Strategic Innovation Office to develop a process for the preparation of the Future Space and what would happen with the ideas after the event. The process consisted of four preparation steps.

### Dimension Characteristics of innovative companies

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Characteristics of innovative companies</th>
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| **Culture** | • Questioning attitude  
• Rewards success and failure, punishes inaction  
• Tolerates mistakes  
• Welcomes change  
• Supports risk taking and change  
• Supports teamwork and collaboration |
| **Structure** | • Fast and flat  
• Small units  
• Encourages collaboration  
• Autonomous teams at the front line |
| **Processes** | • Fast and unbureaucratic  
• Decentralized decision making  
• Support idea generation, experimentation and execution |
| **Systems** | • Support the process of strategic innovation  
• Enable collaboration  
• Enable the use and creation of knowledge  
• Reward risk taking and action  
• Used to create relationships with customers |
| **People** | • Variety (internal and external)  
• Collaboration  
• Educated in regard to the strategy and skills needed |

The first step was a 2 hour meeting with the division and business line managers. During the meeting we established a common view on the purpose of the Future Space and outlined a framework for describing the existing business models.

Next these managers, together with key stakeholders from their organizations, described the existing business models, aided by a business model handbook, which we wrote especially for them. These descriptions were sent to the Strategic Innovation Office for a quality check. Individual talks helped to further sharpen the descriptions and the understanding of the business models and the framework we had chosen.

The business unit managers presented their descriptions to the 1st line group managers in another 2 hour meeting, which was a dry run for the Future Space and helped to further refine the descriptions.

The fourth preparation step consisted of the managers researching key trends impacting their business and examples of innovative business models, which were used for inspiration during the Future Space.

In parallel we worked with the Strategic Innovation Office on planning the Future Space, define how ideas would be evaluated and how to come to a decision about which ideas to implement.

The Future Space itself consisted of the three steps:

1. Describing the history of the company, periods of change and major events that led to the current business model.

2. Inspiration from other innovative business models.

3. The creation step, guided by our 25 ways to reinvent your business model. After the event division and business unit ideas were fed into the regular strategy and budgeting process for the following year.

The outcome of the Future Space:

- A total of 251 first ideas, which were clustered and further described after the event, resulting in 174 ideas.
- 25 ideas for new businesses.
- 18 ideas for social businesses.
- 11 ideas for businesses and services the holding could offer.
- 120 ideas for further developing the existing divisions and their business.
- Business Model Innovation has been put on the radar of the organization and is further driven through the various initiatives.

After the event ideas for new business and cross-division or business unit ideas were clustered and further described and presented to the executive team, which chose 4 ideas to further pursue. For each idea a distinct project team with experts and key stakeholders under the leadership of the Strategic Innovation Office was created.

For the various cross-division projects, dedicated teams were set up. Each team went through the process outlined above: in a first workshop the team came together to set the stage and plan the process in more detail, e.g. how often they would meet, which work packages had to be executed in each phase, what the specific criteria were for moving to the next stage, and so on. All activities were coordinated by the Strategic Innovation Office. Additionally a Business Model Innovation Core Team with representatives of the various teams was created to constantly develop the process, new tools and methodologies to drive all Business Model Innovation efforts, e.g. an official business model innovation handbook including all group business models and those used for the inspiration, an online collection of business model innovation tools, innovation meetings with a broader range of employees, discovery workshops with stakeholders, and an innovation award across the group.
PART 4
USING & IMPLEMENTING THE KNOWLEDGE

PART 4 INCORPORATES A SERIES OF SUGGESTIONS AND ADVICE THAT WILL HELP YOU USE AND IMPLEMENT THE KNOWLEDGE GAINED FROM THE PREVIOUS SECTIONS, IN YOUR OWN ORGANIZATION. THE ADVICE IS FOLLOWED BY COMMENTS FROM THE AUTHOR. THE ADVICE AND COMMENTS CAN BE USED AS GUIDANCE TO HELP YOU REFLECT ON AND FIND SOLUTIONS TO QUESTIONS THAT YOU NEED TO WORK WITH WHEN IMPLEMENTING THE KNOWLEDGE IN YOUR OWN ORGANIZATION.

Describe your business model

Get started!

Engage the organization

Find opportunities and develop ideas

Allocate the necessary resources

Set up the team

Tools

Further Reading
1. DESCRIBE YOUR BUSINESS MODEL

Using the questions above you should start with an individual exercise and outline your business model. You might also want to try the other tools mentioned here in this manual. Make sure you know how to use them, where their strengths and weaknesses are before going into the organization with them.

Example:
Management teams regularly have to do this exercise before we start Business Model Innovation processes in their companies. The exercise also helps to anticipate questions and think of answers upfront.

Question:
Are you comfortable enough to explain to somebody else how to use the tools?

2. GET STARTED!

Get together with your colleagues and discuss why you think it is necessary to engage in Business Model Innovation. Outline the need for change and be sure your colleagues share your picture. Be clear on the purpose of your Business Model Innovation efforts. Discuss the targets you would like to achieve. Describe them in qualitative (“Success for us means...”) and in quantitative terms (be number 1 in the market, sales growth, EBIT margin, Return on ... of x %, etc.)

Example:
The 4 division heads got together for a 1 day workshop to set the targets for the Business Model Innovation initiatives. First they shared their picture of a future vision in individual talks, which were summarized by the group. Next they defined the strategic framework, outlining specific growth targets and evaluated how much would come from the actual business and what gap the business model innovations would have to fill. This gap provided the key evaluation criteria for the business model innovations. They concluded the session with a first description of the current business in terms of who their customers are, what they are offering and how they are doing this.

Question:
What can Business Model Innovation do for your company?

3. ENGAGE THE ORGANIZATION

You cannot do it on your own. After you have the team on the bus, you will need to extend your reach. This usually means the next management level or the key people of the team you are assembling. Start with outlining your purpose, what a business model is (either use the who/what/how framework or any of the others mentioned above) and what business model innovation means (providing examples works best. For a selection of examples see www.sniukas.com). The organization needs to be educated on Business Model Innovation and needs to receive some tools. These tools should also represent the common language you are using within the company. The tools should be as simple as possible. Not seldom people will question these. So before you outline tools, explain the logic behind the business model concept with the who/what/how questions and use other tools to summarize the answers or as a visual representation.

Example:
After having decided on the purpose and the tools, the owner of an industrial holding held several 2 hour meetings with his division and business unit managers to outline his goals for the Business Model Innovation initiative and the business model concept to be used. The managers were trained in what a business model is and how to describe the business model of their divisions and units.

Question:
Have you defined your business model? Do you have a clear and shared picture of your organization’s business model?

4. FIND OPPORTUNITIES AND DEVELOP IDEAS

Before you go large scale with finding opportunities and developing ideas on how to seize them, a 1 or 2 day workshop can give you first insights and help you focus in next steps.

Example:
There are different ways on how you can run such a workshop.

1. The Business Model Innovation team of a holding company gathered about 15 people from 2 differ-
ent divisions, and a couple of typical customers for 1 day workshop. During the workshop first the purpose of Business Model Innovation in the group and the common methodology including the process outlined above were presented. The participants were split into 4 groups and given the same assignment: First brainstorm possible customers for a new technology. Next pick one of these and deep dive into their needs and the customer experience. Finally develop ideas how the new technology and supporting services can be used and offered to this customer to help address his needs and pain points. The ideas were then further described by the team, common themes were assessed and key areas needing further research were identified, and thus a first set of hypothesis was tested through market research and talking to customers.

2. The annual 3 day group meeting with 120 managers from the various business units of a global manufacturing company was used to introduce the topic, outline the history of the company, describe the current business models, gain inspiration from other business model innovations and generate a total of 250 ideas for new business model for the various companies and the whole group. These 250 ideas were then clustered, further described and the executive board picked 5 for which projects were established and the above outlined process was put in place.

3. A division set up two one day workshops with 15 people from the various functions. During the first workshop, opportunities for new markets, new value propositions and new ways of doing business were brainstormed using the 25 ways outlined above. In the second workshop key ideas were identified and specific business models for seizing these opportunities were developed. These were then evaluated by division management using pre-defined criteria and the necessary action steps for implementing the ideas were fed into the regular midterm planning process.

**Question:**
Whom could you gather to quickly identify opportunities and develop ideas on how to seize them?

**5. ALLOCATE THE NECESSARY RESOURCES**

A very crucial part! It works best with having a dedicated person driving the initiative plus a sponsor high up in the ranks. If you can’t find the resources, time and budget it will be hard to drive the initiatives.

**Example:**
A group set up a dedicated Business Model Innovation office, with 3 project managers to drive 5 group wide projects and help business units drive Business Model Innovation within their companies.

**Question:**
How much time are you personally willing to invest?

**6. SET UP THE TEAM**

Once you have the resources, get them together and outline why Business Model Innovation is important for your company, what the specific goals are, how the process will look like and what you expect of the team in terms of results, but also in terms of deadlines and reporting.

**Example:**
A company had multiple Business Model Innovation projects. For each their was a dedicated kick off, with the owner, as the main sponsor, present outlining his reasons and expectations.

**Question:**
Are you clear about the purpose, the process and expected outcomes? Really?

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**ENDNOTES**


2. For a more thorough description of the three categories and how they were developed, see Smukas, M. (2010): Reshaping Strategy, VDM-Verlag.
TOOLS

- “25 ways to reinvent your business” method cards, available for download at www.sniukas.com
- Blue Ocean Strategy Value Curve. For more information on Blue Ocean Strategy tools see www.blueoceanstrategy.com
- Customer Empathy Map. For more information search Google for “Customer Empathy Map” and you get plenty of results.

FURTHER READING

APPLIED INNOVATION MANAGEMENT™

– is a series of guides for those wanting to learn more about creating value with innovation management. The guides are created in collaboration with experts in the field of innovation management from leading companies, business schools and universities.

For general enquiries, please send us an e-mail: info@innovationmanagement.se