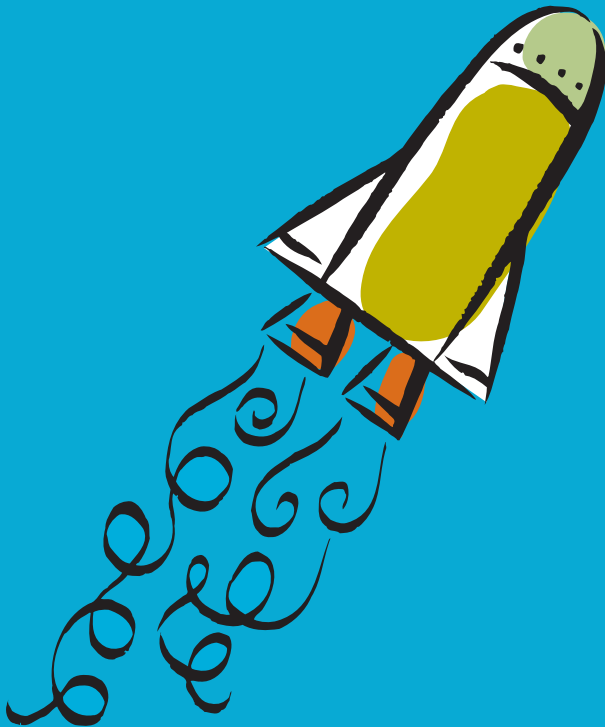
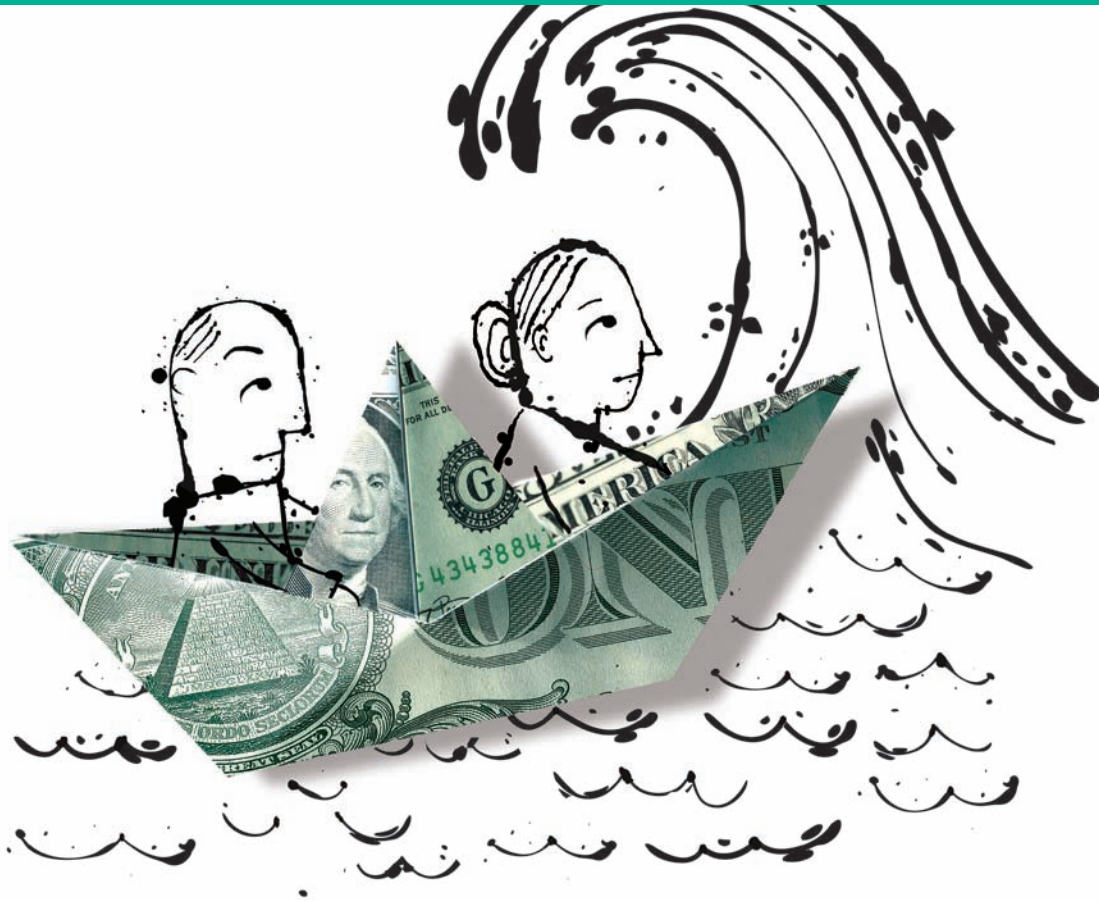


Corporate Renewal through Business Model Innovation



What's next for business growth?



Business model innovation is an emerging corporate discipline that offers new levers to create differentiation, achieve competitive advantage and drive sustainable growth.

Companies have battled through an unprecedented period of economic disruption and displacement that has fundamentally altered the business landscape. Advancements in technology, globalization and new regulatory regimes have deepened the degree of change in virtually every industry. To survive and thrive in this uncertain environment, many companies have focused their energies on improving profitability by becoming highly efficient operators and expert cost-cutters. However, on the revenue side of the equation the core businesses of many of these companies have “run out of steam”. This reality has led to a loss of confidence and momentum as well as stagnant or declining revenue growth rates. Now that these companies have maximized their operating efficiency, they must now confront the question of “how do we grow our business in this ‘new normal’ environment”?

business model innovation





Only recently has a body of new business model innovation best practices, tools and techniques emerged to support a holistic and integrated view of the end-to-end business system.

Introducing business model innovation.

Business models describe how companies create and deliver value. Business Model Innovation (BMI) is the emerging corporate discipline of creating or renewing an entire business and its value creating mechanisms. Companies, large and small, can apply BMI to challenge outmoded assumptions about their businesses, enhance their value propositions and change the competitive dynamics of their industries in their favor.

The essence of business model innovation is not new. Indeed, creating disruptive new business models is at the heart of many entrepreneurial start-ups. In the corporate world, traditional disciplines such as new product development, strategic planning and R&D have some correlation to BMI. However, those corporate functions are often addressed independently of each other without regard to their inherent interdependencies. Only recently has a body of new business model innovation best practices, tools and techniques emerged to support a holistic and integrated view of the end-to-end business system.



...BMI offers the opportunity to systematically align the business to new market opportunities...



When the game changes, change the game.

Creating or renewing business models does not mean engaging in high-risk, “betting the business” strategies. Instead, BMI offers the opportunity to systematically align the business to new market opportunities, asset monetization and sustainable business growth. As a discipline, business model innovation does this by helping companies:

Go beyond cost cutting.

Operational efficiencies and cost cutting, along with great new products and technologies are no longer enough. BMI takes companies far beyond these basics by allowing them to:

- 1) explore the underlying premise and proposition of their business;
- 2) align the right proposition with the right profit formulas, cost structures, offerings and corporate resources; and
- 3) convert the 9 elements of the business model into a “growth engine” that yields short-term revenue improvements while positioning companies to exploit longer-term transformational opportunities.

Business models are comprised of 9 elements:

1.

Customer Segments. The targets for whom value is created and delivered.

2.

Value Propositions. Marketplace offerings that align to specific customer needs.

3.

Channels. Distribution and communication channels needed to reach customers.

4.

Customer Relationships. Type of interaction needed to deliver value to customers.

5.

Revenue Streams. Sources of revenue that are produced by offerings?

6.

Key Resources. Corporate assets needed to create and deliver value propositions?

7.

Key Activities. Corporate competencies needed to create and deliver value propositions

8.

Key Partnerships. External and internal partners and suppliers.

9.

Cost Structure. The costs inherent in a business model.



Every company must have unique views...

Challenge the status quo.

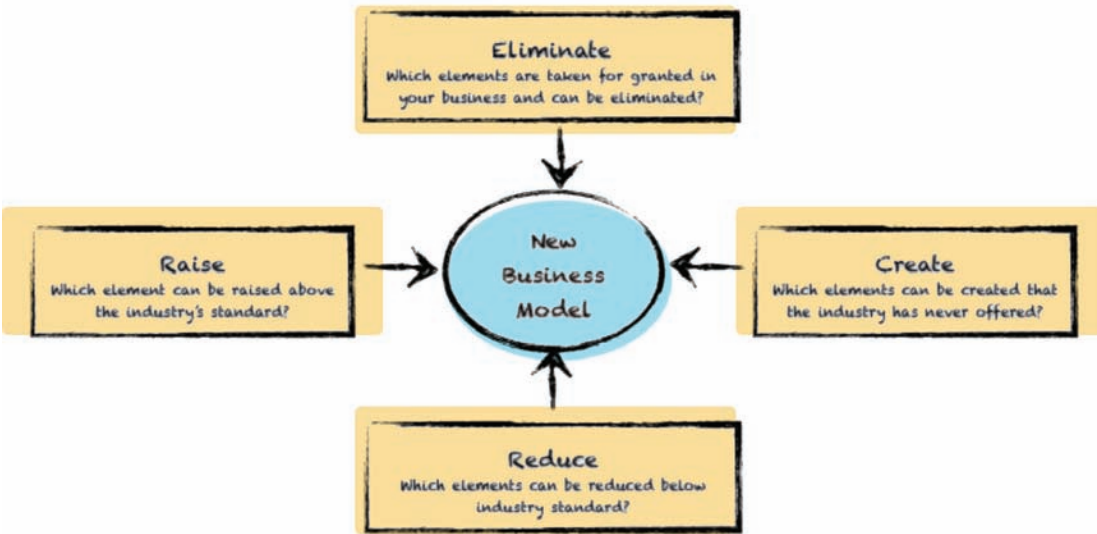
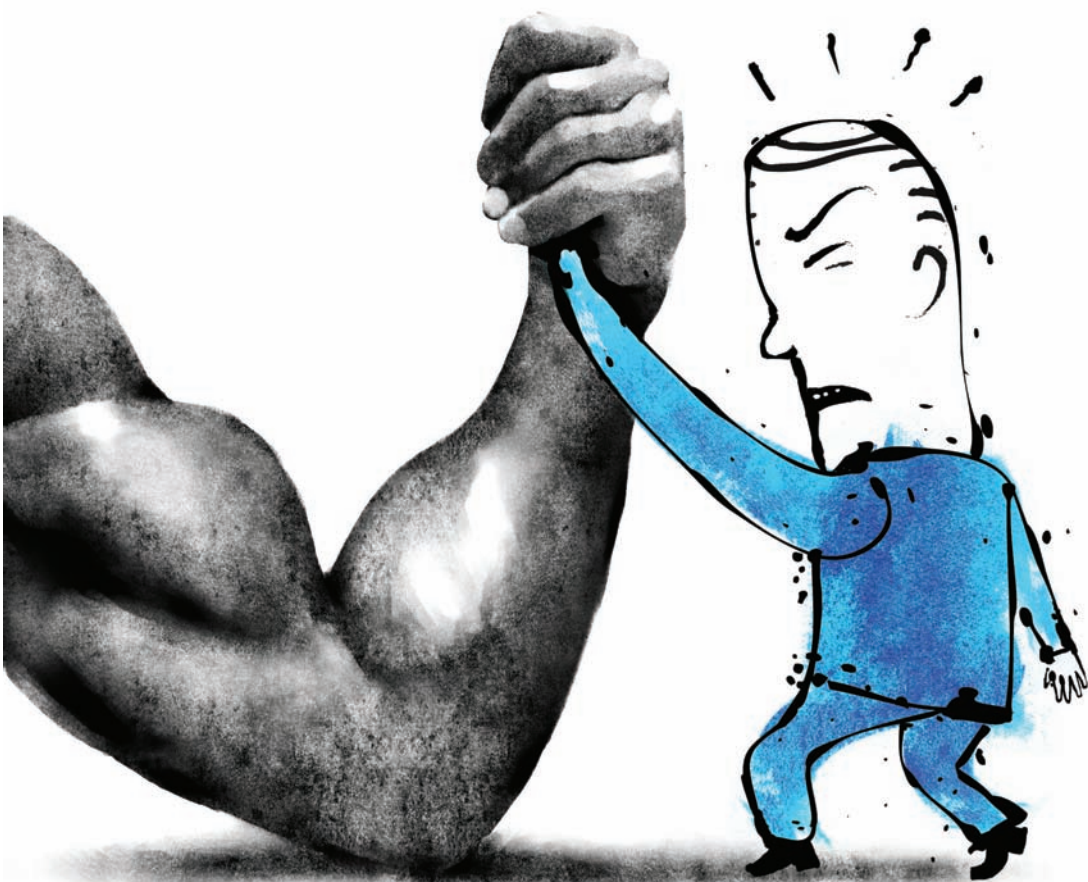
Every company must have unique views of markets and trends in order to identify sources of future demand and growth. Reconfiguring the 9 business model elements to support those unique views present an opportunity for companies to differentiate themselves and create the true competitive advantage that leads to high-growth with minimal competition.

Improve probability of success.

BMI offers a systematic way to view the existing business and retool it to capitalize on future growth opportunities that lie outside of the traditional core customers, core offerings and core markets. Companies can reinvent their businesses in simple, practical and repeatable ways, resulting in sustainable business growth while avoiding commoditization, obsolescence and untenable risks.



...companies can then generate ideas that challenge prevailing industry logic, legacy assumptions and the existing business model.



A framework for action.

Creating or renewing a business model requires that specific action be taken in the 9 elements of the model and their interrelationships with each other. The framework¹ above specifies 4 specific actions that can be applied to rethink the structure of the business model. Taking action to eliminate, reduce, raise and create elements of the business model allows companies to systematically scrutinize how it creates value. Using these actions as a guide, companies can then generate ideas that challenge prevailing industry logic, legacy assumptions and the existing business model.

ADDITIONAL READING:

Mark Johnson, Clayton Christensen, Henning Kagermann, *Reinventing Your Business Model* Harvard Business Review, December 2008

Business Model Generation: A Handbook for Visionaries, Game Changers, and Challengers Alexander Osterwalder, Yves Pigne

Henry Chesbrough, *Open Business Models: How to Thrive in the New Innovation Landscape*

Mark Johnson. *Seizing the White Space: Business Model Innovation for Growth and Renewal*

¹ Adapted from Blue Ocean Strategy, Mauborgne & Kim

the first step



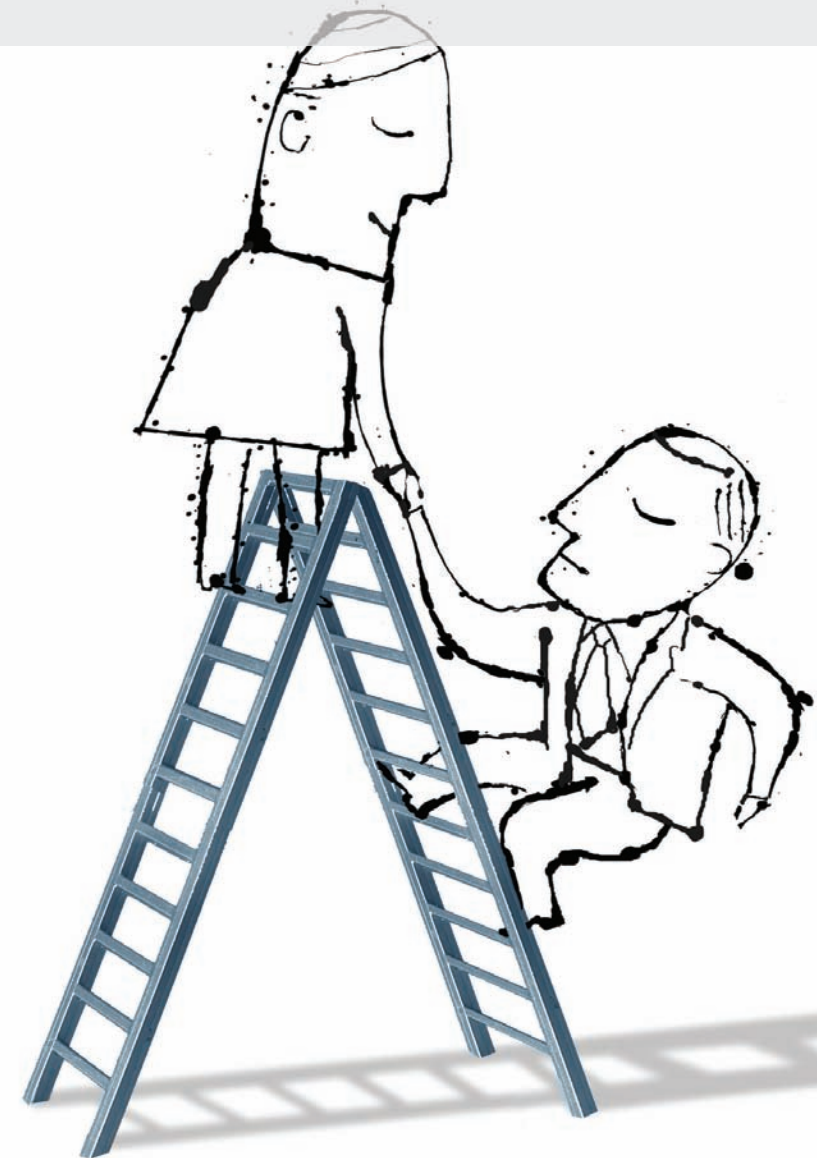


The senior leader must personally participate to provide strategic context and “permission” to challenge the status quo.

Taking the first step.

The most fundamental barrier to initiating a business model innovation initiative is actually the existence of the current business model. Indeed, companies tend to become enamored with the success of their current businesses and think that the “good times” will last forever. This psychology can inhibit any critical exploration of the existing business and can stop any business model innovation effort in its tracks. Overcoming this barrier is the first step in launching a business model innovation. Companies can do this by incorporating three first principles:

Senior leadership engagement. The senior leader must personally participate to provide strategic context and “permission” to challenge the status quo.



Active participation from every part of the organization is required to build understanding...

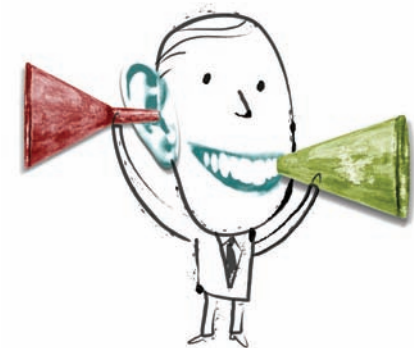


POINT OF INTEREST:

According to the Economist, over 50% of executives believe that by 2010, business model innovation will be even more important for success than product or service innovation.

Cross-functional participation. Active participation from every part of the organization is required to build understanding, foster buy-in and ignite creativity.

Holistic approach. All elements of the existing business model must be “on the table” and contemplated to frame the discussion around the company’s objectives and future.



important?



...there is often a temptation to pursue ill-advised mergers and acquisitions, expensive advertising, poorly conceived new products or clumsy forays into non-core businesses.

Why is this important?

Over time, due to failed or outmoded business models, many companies may face commoditization, obsolescence or business failure. Companies that fail to reposition their business models to exploit emerging market forces, trends and new opportunities can lead to declines in the core business with minimal potential to offset those declines. However, with their focus on operating efficiency, many companies are unable to adjust their basic business model to the new marketplace realities.

Once companies realize that their core businesses are in trouble, there is often a temptation to pursue ill-advised mergers and acquisitions, expensive advertising, poorly conceived new products or clumsy forays into non-core businesses. While these activities have the potential to create value, they use a “lucky strike” approach that may also destroy value. What is often needed and overlooked is a fundamental rethinking of the legacy business model.

POINT OF INTEREST:

The American Management Association determined that no more than 10% of innovation investment at global companies is focused on developing new business models.



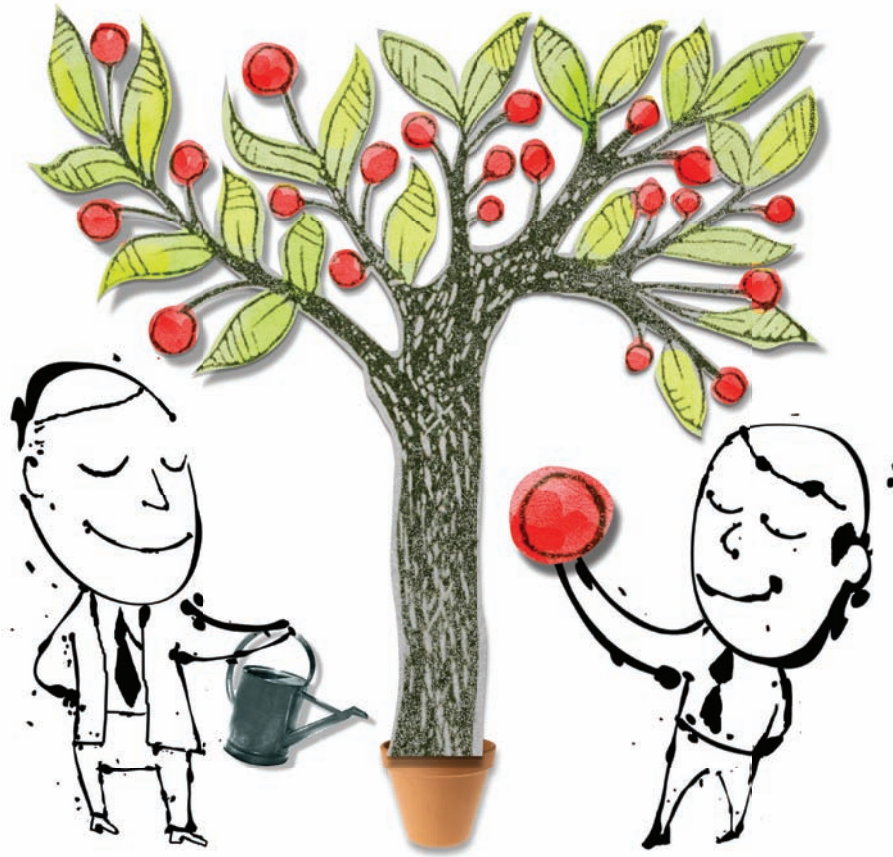
...there are many examples of companies that have created tremendous value by creating disruptive business models in the corporate setting.



History is replete with examples of great companies that failed to evolve their business models. Notable examples include companies such as Data General, Circuit City, Tower Records, Atari and Hollywood Video. On the other end of the spectrum, there are many examples of companies that have created tremendous value by creating disruptive business models in the corporate setting.

For example:

- **Tata Motors** has created a business model for its \$2300 Nano automobile that upsets the basic cost structure of the traditional automobile market. This business model innovation has the potential to open up automobile ownership to billions of new potential customers;
- **Cirque de Soleil** disrupted the traditional circus industry by fundamentally changing virtually every element of the traditional business model;
- **Southwest Airlines** eliminated traditional elements of air travel and created a disruptive business model that avoids commoditization and drives long-term value;
- **Apple Computer** toys with being the most valuable company in the world (by market capitalization) by wrapping great technology and compelling design in powerful business models such as the iPod + iTunes model.



POINT OF INTEREST:

A 2008 IBM study concluded that 75% of CEOs reported the need to adapt their business models; more than 66% said that extensive changes were needed.

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