

Business Model Design Process

In this chapter we tie together the concepts and tools from the book to simplify the task of setting up and executing a business model design initiative. We propose a generic business model design process adaptable to your organization's specific needs.

Every business model design project is unique, and presents its own challenges, obstacles, and critical success factors. Every organization starts from a different point and has its own context and objectives when it begins addressing an issue as fundamental as its business model. Some may be reacting to a crisis situation, some may be seeking new growth potential, some may be in startup mode, and still others may be planning to bring a new product or technology to market.

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The process we describe provides a starting point upon which just about any organization can customize its own approach. Our process has five phases: Mobilize, Understand, Design, Implement, and Manage. We describe each of these phases in a general way, then revisit them from the perspective of the established organization, as business model innovation in enterprises already executing on one or more existing business models requires taking additional factors into account.

Business model innovation results from one of four objectives:

(1) to satisfy existing but unanswered market needs, (2) to bring new technologies, products, or services to market, (3) to improve, disrupt, or transform an existing market with a better business model, or (4) to create an entirely new market.

In longstanding enterprises, business model innovation efforts typically reflect the existing model and organizational structure.

The effort usually has one of four motivations: (1) a crisis with the existing business model (in some cases a "near death" experience), (2) adjusting, improving, or defending the existing model to adapt to a changing environment, (3) bringing new technologies, products, or services to market, or (4) preparing for the future by exploring and testing completely new business models that might eventually replace existing ones.

Business Model Design and Innovation

Satisfy market: Fulfill an unanswered market need

(e.g. *Tata car, NetJets, GrameenBank, Lulu.com*)

Bring to market: Bring a new technology, product, or service to market or exploit existing intellectual property (IP) (e.g. *Xerox 914, Swatch, Nespresso, Red Hat*)

Improve market: Improve or disrupt an existing market (e.g. *Dell, EFG Bank, Nintendo Wii, IKEA, Bharti Airtel, Skype, Zipcar, Ryanair, Amazon.com retail, better place*)

Create market: Create an entirely new type of business (*Diners Club, Google*)

CHALLENGES

- Finding the right model
- Testing the model before a full-scale launch
- Inducing the market to adopt the new model
- Continuously adapting the model in response to market feedback
- Managing uncertainty

Factors Specific to Established Organizations

Reactive: Arising out of a crisis with the existing business model

(e.g. *IBM in the 1990s, Nintendo Wii, Rolls Royce jet engines*)

Adaptive: Adjusting, improving, or defending the existing business model (*Nokia "comes with music," P&G open innovation, Hilti*)

Expansive: Launching a new technology, product, or service (e.g. *Nespresso, Xerox 914 in the 1960s, iPod/iTunes*)

Pro-active/explorative: Preparing for the future (e.g. *car2go by Daimler, Amazon Web Services*)

CHALLENGES

- Developing an appetite for new models
- Aligning old and new models
- Managing vested interests
- Focusing on the long term

Design Attitude

Business model innovation rarely happens by coincidence. But neither is it the exclusive domain of the creative business genius. It is something that can be managed, structured into processes, and used to leverage the creative potential of an entire organization.

The challenge, though, is that business model innovation remains messy and unpredictable, despite attempts to implement a process. It requires the ability to deal with ambiguity and uncertainty until a good solution emerges. This takes time. Participants must be willing to invest significant time and energy exploring many possibilities without jumping too quickly to adopt one solution. The reward for time invested will likely be a powerful new business model that assures future growth.

We call this approach design attitude, which differs sharply from the decision attitude that dominates traditional business management. Fred Collopy and Richard Boland of the Weatherhead School of Management eloquently explain this point in their article “Design Matters” in the book *Managing as Designing*. The decision attitude, they write, assumes that it is easy to come up with alternatives but difficult to choose between them. The design attitude, in contrast, assumes that it is difficult to design an outstanding alternative, but once you have, the decision about which alternative to select becomes trivial (see p. 164).

This distinction is particularly applicable to business model innovation. You can do as much analysis as you want yet still fail to develop a satisfactory new business model. The world is so full of ambiguity and uncertainty that the design attitude of exploring and prototyping multiple possibilities is most likely to lead to a powerful new business model. Such exploration involves messy, opportunistic bouncing back and forth between market research, analysis, business model prototyping, and idea generation. Design attitude is far less linear and uncertain than decision attitude, which focuses on analysis, decision, and optimization. Yet a purposeful quest for new and competitive growth models demands the design approach.

Damien Newman of the design firm Central eloquently expressed the design attitude in an image he calls the “Design Squiggle.” The Design Squiggle embodies the characteristics of the design process: Uncertain at the outset, it is messy and opportunistic, until it focuses on a single point of clarity once the design has matured.

UNCERTAINTY

CLARITY / FOCUS



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*research
& understand*

*design business
model prototypes*

*implement business
model design*

5 Phases

The business model design process we propose has five phases: Mobilize, Understand, Design, Implement, and Manage. As previously mentioned, the progression through these phases is rarely as linear as depicted in the table on the right. In particular, the Understanding and Design phases tend to proceed in parallel. Business model prototyping can start early in the Understanding phase, in the form of sketching preliminary business model ideas. Similarly, prototyping during the design phase may lead to new ideas requiring additional research—and a revisiting of the Understand phase.

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Finally, the last phase, Manage, is about continuously managing your business model(s). In today's climate, it's best to assume that most business models, even successful ones, will have a short lifespan. Considering the substantial investment an enterprise makes in producing a business model, it makes sense to extend its life through continuous management and evolution until it needs complete rethinking. Management of the model's evolution will determine which components are still relevant and which are obsolete.

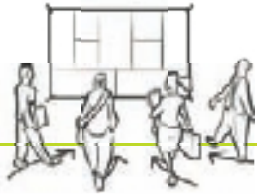
For each process phase we outline the objective, the focus, and which content in *Business Model Generation* supports that phase. Then we outline the five phases in more detail, and explain how the circumstances and focus can change when you are working with an existing business model in an established organization.

OBJECTIVE

FOCUS

DESCRIPTION

BOOK SECTIONS



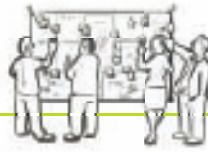
Mobilize

Prepare for a successful business model design project



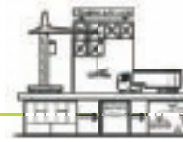
Understand

Research and analyze elements needed for the business model design effort



Design

Generate and test viable business model options, and select the best



Implement

Implement the business model prototype in the field



Manage

Adapt and modify the business model in response to market reaction

Setting the stage

Assemble all the elements for successful business model design. Create awareness of the need for a new business model, describe the motivation behind the project, and establish a common language to describe, design, and analyze and discuss business models.

Immersion

You and the business model design team immerse yourselves in relevant knowledge: customers, technology, and environment. You collect information, interview experts, study potential customers, and identify needs and problems.

Inquiry

Transform the information and ideas from the previous phase into business model prototypes that can be explored and tested. After an intensive business model inquiry, select the most satisfactory business model design.

Execution

Implement the selected business model design.

Evolution

Set up the management structures to continuously monitor, evaluate, and adapt or transform your business model.