

# To Change Your Strategy, First Change How You Think

by Mark Bonchek and Barry Libert

MAY 17, 2017



Tim Evans for HBR

It seems that everyone these days is looking for a disruptive business model. But a business model is only one part of the equation. Equally important is the *mental* model behind the business model, as well as a *measurement* model for both. It's the combination of mental, business, and measurement models that allows real transformation to occur.

The airline industry is a cautionary tale of what happens when companies emulate new business models without bringing over the associated mental models.

For over 40 years, Southwest Airlines has been a disruptive force in the airline industry, creating an entirely new category and a record 43 consecutive years of profitability. Traditional carriers like United, American, and Delta have a wide range of fares with multiclass cabins, heterogeneous fleets, and hub-and-spoke routes. Southwest's innovation was to focus on low fares with one-class cabins, homogeneous fleets, and point-to-point routes.

From the start, Southwest cofounder Herb Kelleher saw his competition not as other airlines but as alternative forms of transportation, whether cars, buses, or trains. He wanted to enable people to fly who wouldn't otherwise have been able to. Therefore his mental model was not how to gain market share from other airlines, but how to create a completely new market for air travel.

This wasn't the only difference in mental models between Southwest and traditional carriers. Kelleher is known for saying: "I tell my employees that we're in the service business, and it's incidental that we fly airplanes." Other carriers fly airplanes that carry people. Southwest serves people using airplanes.

In the early years, other airlines tried to copy Southwest's business model with efforts such as Continental Lite, Ted by United, and Song by Delta. All of these efforts failed. The carriers blamed poor execution. When Continental shuttered Lite, then CEO Gordon Bethune said, "It wasn't implemented in an orchestrated way." The deeper reason was that a new business model was implemented without a new mental or measurement model.

Traditional carriers were still thinking about their business as flying planes rather than thinking about serving people, still worrying about capturing share rather than growing the market, and still measuring success based on how well they utilized planes rather than how well they served passengers.

In contrast, companies like JetBlue decided to emulate Southwest's entire system: mental model, business model, and measurement model. Like Southwest, JetBlue focuses on people over planes, with a mission to "bring humanity back to air travel." Beyond the usual financial metrics, JetBlue also measures the strength of its culture and the quality of its experience. As a result, JetBlue is a regular winner of the "Best Places to Work" award, leads the industry in customer loyalty, and is consistently profitable.

It's easy to blame a failed business on doing the wrong things, but rarely do leaders realize that the failure lies in their own thinking. Bethune and the other airline leaders thought that the Southwest model was about taking out costs. But that was the outcome, not the strategy. What Bethune should have said was, "We weren't ready to prioritize people over planes." The lesson is one that United's CEO, Oscar Munoz, would be advised to heed as he seeks to turn the backlash over Flight 3411 into a "watershed moment" for the airline as it seeks to "put our customers at the center of everything we do."

We are in the midst of a massive migration in business models, from managing assets and delivering services to creating technologies and orchestrating networks. According to research by one of us (Barry), technology- and network-based business models are more profitable, enable faster growth, and are more rewarded in the marketplace.

Many companies have "platform envy" and are trying to emulate the network-based business models of companies like Uber, Amazon, Airbnb, and Paypal. But before you start copying their business models, let the example of Southwest be a lesson. Copying a business model without copying a mental model will lead to disappointing results. You have to change how you think before you can change what you do, and then change what you measure to close the loop.

Consider the recent announcement by Volkswagen that it plans to overtake Tesla in the electric car race. The head of VW's brand said that the company will have "leapfrogging cost advantages" thanks to its MQB platform, a modular architecture for building cars.

VW is replicating Tesla's business model but with the wrong mental model. VW thinks of itself as a car manufacturer that uses technology. Tesla, on the other hand, thinks of itself as a technology company that manufactures cars. VW would say its cars have sophisticated computers. Tesla CEO Elon Musk has said of the Model S, "It's a very sophisticated computer on wheels."

This difference in mental models generates very different measurement models. With a manufacturer mindset, the car industry is heavily focused on measuring changes from one model year to the next. By contrast, Tesla's technology mindset has it thinking in terms of software releases and downloads rather than model years and shipments. Musk has said, "Most cars don't improve over time. But the Model S gets faster and better."

**Identify Your Thinking Style**

It depends on two factors.

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GE shows that legacy companies can adopt a new mental and measurement model with a change in business model. CEO Jeff Immelt has said, “We’ve made the decision that we’re going to try to be both a platform company and an application company.... We want to treat analytics like it’s as core to the company over the next 20 years as material science has been over the past 50 years.”

GE recognizes that a networked business model requires a networked organization. Vice chair Beth Comstock is focused on transforming GE

into an “emergent organization.” GE is also using very different metrics for its platform businesses. The key metrics are assets on the platform, rather than margin or revenue growth. This is appropriate for a platform business, as it measures capacity for exponential growth in the future rather than the results of incremental change in the past or present.

There are opportunities to bring new thinking to every industry and function. For example, most retailers are merchants using technology. Amazon is a technologist empowering merchants. Traditional retailers obsess over incremental metrics like same-store sales that are tied to business goals. By contrast, 80% of Amazon’s metrics provide feedback on how well it is helping customers achieve *their* goals.

The digital revolution is forcing every company to move from business models focused on products and services to those that leverage networks and platforms. This shift requires dispelling myopia, embracing new organizational models, and unlearning old habits. It’s a fundamental change in how you think and what you measure. But once you align your mental, business, and measurement models, you will be well on your way to a successful digital transformation.



**Mark Bonchek** is the Founder and CEO (Chief Epiphany Officer) of Shift Thinking. He works with leaders and organizations to update their thinking for a digital age. Sign up for the Shift newsletter and follow Mark on Twitter at @MarkBonchek.



**Barry Libert** is a board member and CEO adviser focused on platforms and networks. He is chairman of Open Matters, a machine learning company. He is also the coauthor of *The Network Imperative: How to Survive and Grow in the Age of Digital Business Models*.

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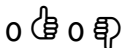
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