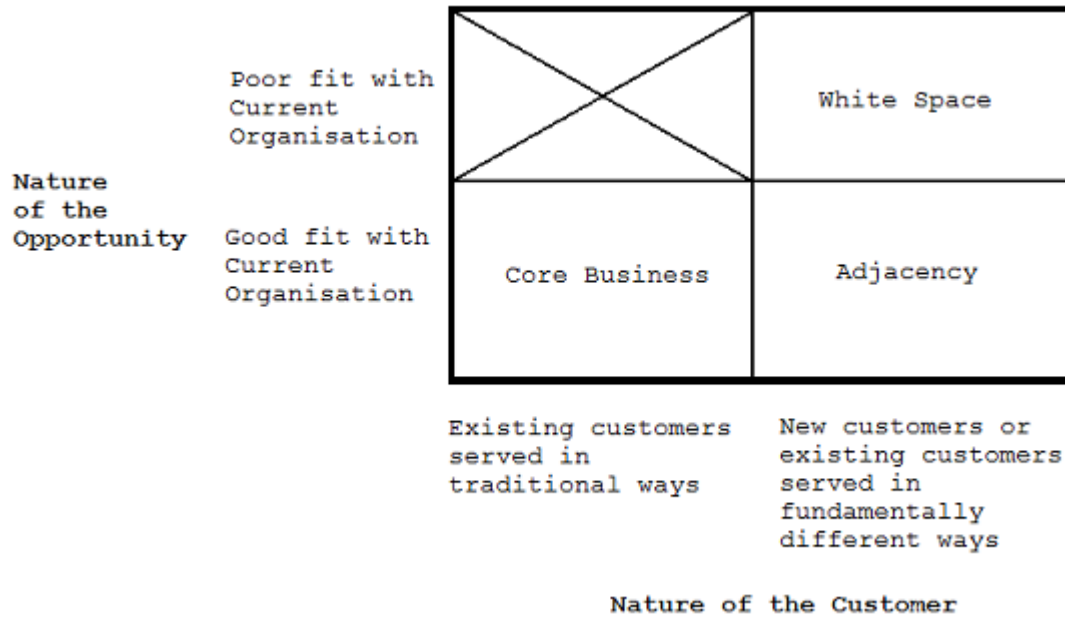


Seizing the White Space

10 February 2011

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1 White Space and Business Innovation



2 Business Model Framework

Consists of five major elements

1. *Customer Value Proposition*
 2. Profit Formula
 - *Revenue Model*
 - *Cost Model*
 - Target Unit Margin - Operating Profit per Unit required to achieve desired profit level
 - Resource Velocity / Inventory Turns
- Core Competences
3. Key Processes
 4. Key Resources
 5. *Target Market*

Rules norms and metrics help to tie the model together. These tend to be formed last but once formed can provide the driving force behind the model.

3 Shifts in Basis of Competition

As a product moves through its life cycle unique selling points need to change

○ Product Innovation	Features and Performance
○ Process Innovation	Quality and Reliability
○ Business Model Innovation	Convenience
○ Business Model Innovation	Cost [<i>Now a commodity</i>]

4 Creating New Markets

Inhibitors to potential clients produce market barriers (WASTE)

- Wealth - too costly
- Access - provide the supply chain
- Skills - (usability) provide solution that is accessible to the layman
- Time - too time consuming

Democratizing products brings them to a larger market.

The *Hindustan Unilever Shakti Initiative* used local community to produce local sales representatives.

Problem-Solving Continuum

A predictable pattern by which the way people solve problems shifts over time as they gain more knowledge. When knowledge is low, people must make do with unstructured attempts to solve a problem. As they gain more knowledge, they begin to recognize patterns and eventually to devise reliable rules to guide their problem-solving efforts. As knowledge in an industry moves along the problem-solving continuum, opportunities in a company's white space open up, allowing it to develop new customer value propositions and new business models that democratize products and services by overcoming barriers to consumption.

5 Discontinuity and Disruptive Changes

These are ideal for changing business models, often requiring adaptation to remain in business.

Potential drivers (GWEnT)

- Government and Politics
- World Current Affairs
- Environment
- Technology

6 Designing a New Business Model

- This is an *iterative process*, where the key elements adapt over time to produce the ideal balance
- Discover customer's *jobs-to-be-done*.
- Traditional marketing approach;
 - Needs-based-questioning ("What do you need?") is constrained in response by current products
 - Segments market by features or demographics that needn't align to the job to be done
- Ask instead: "what are you trying to get done?"
 - Understand the problem space so as to be able to provide valuable solutions
 - If possible watch the consumer as a silent observer
- As well as functional elements consider the *social* and *emotional* aspects

p123 Designing the New CVP

The most important element of the business model; *what* is sold and *how* it is sold?

CVP Component	Key Questions from the Customer's perspective
Offering	<ul style="list-style-type: none"> • Does the offering satisfy my <i>job-to-be-done</i>? • Does it offer the right trade-offs? • Are the elements that matter most good enough for what I need?
Access	<ul style="list-style-type: none"> • How do I get the offering? • From whom do I get the offering? • How often will I need to purchase the offering?
Payment Scheme	<ul style="list-style-type: none"> • What am I paying for? (Pay per unit, pay per use, pay when value is added)? • When do I pay? (Up front, subscription, etc.) • What is the form of payment? (Cash, credit, finance, exchange)

The levers below capture factors to be considered, in each case they list the extremities, although the final solution may lie somewhere between the two.

Sample product/service levers

Type	
Product	Product
Service	Service

Features	
Focused	Limited set of features
Extensive	Extensive feature set

Form	
Tangible	Measurable or concrete product or service attributes
Intangible	Intangible attributes

Custom	
General	No ability to customise
Custom	Can easily be customised to individual needs

Breadth	
Single	Single product/service delivered to customer
Bundled	Multiple product/services delivered simultaneously

Lifetime	
Consumable	Consumed multiple times
Durable	Consumed once

Sample access levers

Supplier	
Direct	Offering supplied direct to customer by company
Indirect	Supplied via a third party

Support	
Light	Customer provided with little purchasing support
Heavy	Provided with significant purchasing support

Frequency	
Often	Purchased frequently
Rarely	Purchased infrequently

Availability	
On-demand	Available all the time
Limited	Available at limited times

Timing	
Immediate	Value realised immediately
Delayed	Value not realised at the time of purchase

Autonomy	
Assisted	Offering requires assistance
Independent	Used by customer without assistance

Strategy	
Planned	Premeditated purchase
Unplanned	Spontaneous purchase

Location	
Traditional	Same location as before
New	Purchased at new location

Sample payment levers

Form	
Exchange	Purchased with cash
Finance	Purchase through finance

Price	
Fixed	Fixed price offering
Variable	Price of offering can vary

Unit	
Pay per Unit	Customer pays per unit
Pay per Value	Pay proportionally to the value extracted

Frequency	
Once	Makes a single payment
Instalment	Makes small regular payments

Timing	
Up-Front	Pay before receipt
Afterward	Pay after receipt of offering

Payer	
Single	One customer pays all
Multiple	Multiple customers pay for entire offering

Devising Profit Formula

Recommendation is not to focus on one revenue model, instead leave a number of options open and finalise these through repeated iterations, so as not to close off opportunities too soon.

Sample Revenue Models

Type	Example	Description
Affinity Club	MBNA	Partner with membership associations to offer a products exclusively, use royalties for access to larger customer base
Brokerage	Century 21, Orbitz	Bring together/facilitate transactions between buyers/sellers
Bundling	Value meals	Simplify purchases by packaging related products together
Cell Phone	Sprint, Better Place	Multiple service plans priced according to level of usage
Crowdsourcing	Wikipedia, Youtube	Outsource tasks to contributors in exchange for free content
Disintermediation	Dell, WebMD	Deliver directly service of intermediary
Fractionalization	Time-sharing	Partial ownership with benefits of full ownership
Freemium	Skype, LinkedIn	Basic services free with charges for upgrades
Leasing	Xerox, luxury cars	Make high-cost high margin products accessible
Low-touch	Southwest	Low-price low-margin version of high-end offering
Negative Operating Cycle	Amazon	Maintain low inventory with customers paying up front for product or service delivered in the future
No-Win-No-Fee	Lawyers	Only pay if the lawyer wins the case
Pay-as-you-go	PG&E	Charge for metered services according to usage
Pay-what-you-save	Schneider Electric	Performing energy consulting reviews that are reimbursed upon achieving a specified saving level
Razors/blades	Gillette, Printers	Provide product at low-cost with high margin components
Reverse auction	Elance.com	Participants bid price down from a ceiling price
Reverse razors / blades	iPod/iTunes, Amazon Kindle	Provide product at high-cost with low margin components
Product-to-service	IBM, Zipcar	Sell the service performed not the supporting product
Standardization	MinuteClinic	Low cost standard solutions to costly products/services
Subscription club	Magazines, Netflix	Subscription fee for access to product or service
User communities	Angie's List	Member network producing fee and advertising revenue

- In building the profit/loss statement create a reverse income statement without revenues, that can be used to compute the require profit (per sale) in 3 to 5 years
- Tell a story regarding how the CVP will create strong growth
- The work done in getting to this stage will have produced some key processes and resources required to fulfil the CVP. These will be tested and developed during the implementation stage that follows.
- Prior to the next phase compare the new business model with traditional elements of the business.

Note which items can be shared with current core competencies
Any potential differences between the two, which may cause conflicts

7 Implementing the Model

The model should be refined through control experimentation. Hypotheses should be tested to check whether the model will work well in practice. As key resources and processes are developed to deliver the customer value proposition.

Proposal; the model should be implemented over 3 phases

<p>Incubation (1-3 yrs)</p>	<p>Identify assumptions most critical to success and examine these.</p> <ul style="list-style-type: none"> • Validate assumptions rather than taking them as fact • Reduce risk by checking assumptions before implementation, using a <i>foothold market</i> as a test-bed • Test assumptions in a controlled environment • Test early, test cheaply and test often to develop the business model before committing too many resources <p><i>Seek to keep this phase independent of interference from the core to allow the creativity to flow without the normal business constraints</i></p> <ul style="list-style-type: none"> • Seek to indentify the best customer value proposition • Determine what will constitute success and how to measure this <ul style="list-style-type: none"> ○ Specific Measurable Attainable Realistic Time-bound • Keep the scale small at this stage, until the business model is finalised 				
<p>Acceleration (2-5 yrs)</p>	<p>With a viable business model it is time to scale up</p> <ul style="list-style-type: none"> • Knowledge is greater • Focus less on experimentation and define repeatable processes <ul style="list-style-type: none"> ○ Monitor and refine these processes • Move from <i>foothold markets</i> to broad market adoption 				
<p>Transition (1-3 yrs)</p>	<p>Applies only to incumbent enterprises; can the new model be integrated into the core or should it remain independent?</p> <table border="1" data-bbox="427 1263 1398 1635"> <thead> <tr> <th data-bbox="427 1263 919 1323">Remain Separate if</th> <th data-bbox="924 1263 1398 1323">Consider reintegration when</th> </tr> </thead> <tbody> <tr> <td data-bbox="427 1330 919 1635"> <ul style="list-style-type: none"> • Significantly different business roles and metrics • Distinct brand and customer value proposition • It would be disruptive to the core <ul style="list-style-type: none"> • Lower margin product • Lower overheads • Higher resource velocity </td> <td data-bbox="924 1330 1398 1635"> <ul style="list-style-type: none"> • Differentiated by resources and processes <ul style="list-style-type: none"> • Similar profit formula • Greater unit margins • Enhances core brand • Can transform and improve core </td> </tr> </tbody> </table>	Remain Separate if	Consider reintegration when	<ul style="list-style-type: none"> • Significantly different business roles and metrics • Distinct brand and customer value proposition • It would be disruptive to the core <ul style="list-style-type: none"> • Lower margin product • Lower overheads • Higher resource velocity 	<ul style="list-style-type: none"> • Differentiated by resources and processes <ul style="list-style-type: none"> • Similar profit formula • Greater unit margins • Enhances core brand • Can transform and improve core
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Buying New Business Models

When considering Merger & Acquisitions determine the current business model at play

- It is easier to bring in businesses at the incubator stage, as their process is still being refined
- Integrating into the core may break the business model
 - Consider retaining as a silo
 - Check for suitability of integration
 - Seek to allow the acquired firm to extract value from the core

8 Overcoming Incumbent Challenges

- Where core processes are well ingrained alternative offerings may be rejected prematurely
- The tendency to tie a new opportunity to the existing business model can be catastrophic
 - Remember that it is supporting a new customer value proposition
- Business innovations often come second place to core solutions, resulting in resources issues
 - There may be concerns regarding cannibalization
 - Pressure exists to break the innovation out of incubation too soon
- The current model has generated a system of existing *rules, norms and metrics* which may well differ from those required by the innovation
 - Such establishments should create friction against changing successful practices
 - Devised rules may inhibit a fundamentally new customer value proposition

Core Business Model activities which interfere with new business models,

Financial	Operational	Marketing/Sales/R&D/HR
Gross Margins	End-Product Quality	Pricing
Opportunity Size	Supplier Quality	Performance Demands
Unit Pricing	Owned/Outsourced Manufacturing	Product-Development Life Cycles
Unit Margin	Customer Service Level	Basis for Rewards and Incentives
Time to Break-Even	Channel Options	Brand Parameters
Net Present Value Calculations	Lead Times	
Credit Terms	Throughput	

- Financial expectations are normally based around the core and can be difficult to overcome
 - With disruptive industry models being especially challenging
- Beware of seeking to leverage existing resources and process as they may hamper/break the model
 - Allow new model to borrow from appropriate the core competencies
- Ensure level of responsibility are understood, if possible release human resources from other projects
- Consider how best to implement reward scheme for projects seeking break-even in the future

In many businesses there are multiple products progressing through different stage of their product life cycle, with new concepts rising to replace those in decline

Strategy and Business Models

Harvard Business School historian [Alfred Chandler](#) argued that "*structure follows strategy*", but this does not automatically evolve. The resultant structure needs to be governed by the imperatives of the business model.

Claim: strategy follows structure in the typical organisation by seeking incremental improvements on the current model

Bibliography

Johnson, M. W. (2010). *Seizing the White Space*. Harvard Business Press.