



Build a Business Model Mindset or Die

54% of senior managers favour new business models over new products and services as a source of future competitive advantage. This information comes from a recent global survey by the Economic Intelligence Unit on more than 4,000 senior managers. The general message was “how companies do business is more important than what they do.”

The same survey reported that two thirds of leaders lack a business model mindset. They are stuck in the present. If they stay stuck, their business may become uncompetitive and die.

The business model question plagues ambitious companies. In this hyper competitive digital era, cheeky startups threaten whole industries. Think what Uber did to the taxi industry or Netflix to TV viewing. Good CEOs ask their teams whether they have the right business model.

When you look at Uber or Netflix, it’s easy to feel that what they did was obvious. However it’s hard to think in business model terms when you are rooted to an existing business.

A business model is how your business creates, delivers and captures value. CEOs with a business model mindset rethink how they do things around a clear customer need. Then they realign their resources, processes and profit formula around this new value proposition.

Leaders with a business model mindset think differently. For example, they seek:

1. To create value in new ways (e.g. become a franchise company)
2. To harness under-utilised sources of future value (e.g. use data for insight)

3. To create an entire new activity system that is difficult to imitate (e.g. Zara fast fashion model)

Building a Business Model Mindset - The Basics

A Business Model Mindset encourages innovation. It enables your business to create new opportunities in existing and new markets. You can make it happen in a variety of ways:

- a. Add new activities, through forward or backward integration (e.g. Netflix has backward integrated into making movies)
- b. Link activities in new ways (e.g. Uber changed the way we order and pay for taxis)
- c. Change who performs the activities (e.g. outsourcing some of the activities to a more efficient partner or even to customers)

Zara has a business model mindset. They are one of the most devastating and innovative retailers on the planet. Ignoring the retail status quo, they built their activity system on 'fast fashion' adapting their stock continually to customer demand. They have no time for the dated mindset of slow fashion seasons. Zara puts their customer at the front of the supply chain. They use local market suppliers, rather than low cost countries. Like Amazon, they run fast experiments to test and adapt their model continually.

Building a Business Model Mindset - Advanced

More advanced business model thinkers seek newness, lock-in, complementarities and efficiencies.

Newness: degree that the innovative activity is really different (e.g. the way the business captures value, giving real value away for free – technology can often drive this)

Lock-in: business model activities that tie customers or other stakeholders to the business (e.g. online hotel direct booking loyalty programmes)

Complementarities: captures the value-enhancing effect of the interdependence among stakeholders (e.g. Zara creating a circular model, each aspect reinforcing the other)

Efficiencies: cost savings through connections between the activity system (e.g. taking out an unnecessary expense from the supply chain)

Insight in Brief

A business model is how your business creates, delivers and captures value. It attempts to meet market needs through activities delivered by the firm, partners or customers. Building a business model mindset in your business can have a powerful and effective impact. It allows long-lasting differentiation from your competition.

Insight in Action

Five themes to consider when building a business model mindset:

- What target customer needs can be fulfilled through a new business model design?
- What new activities are required (or could be removed) to satisfy these needs? How could these activities be related to each other in new ways?

- Who should carry out each of the activities in the business model, the company, a partner or the customer?
- How is a better value model created for each of the participants?
- What revenue model fits with the company's new business model relative to the value it creates?