Bringing business models down to earth

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The term "new business model" has an enticing ring to it, as it refers to a new and supposedly better way of making money. Ryanair, McDonald's, IKEA and Amazon are examples that come to mind immediately. Admirable as these may be, they are also so extraordinary that they provide little guidance to executives on how to establish new ways of making money within their own industry, company or business unit. In this article the authors explain how to go about new business model thinking in practice, using plain and simple examples.

In the scientific literature the term "business model" is often defined in a rather impenetrable way. For example, Raphael Amit (University of Pennsylvania) and Christoph Zott (INSEAD) use as a definition: "The structure, content, and governance of transactions between the focal firm and its exchange partners." If you don't quite relate to this, you may feel more comfortable with its prosaic translation: "The way you make money."

A new business model, then, is a new way of making money, usually by upsetting the established ways of making money in the industry in which you compete currently. One of the best-known and most nifty examples of a new business model is the low-cost no-frills airline, epitomized by the Ireland-based company Ryanair. Instead of using a hub-and-spoke network, Ryanair flies point-to-point, at secondary airports, which are cheaper and allow faster aircraft turnaround times. Instead of relying on travel agents who take a cut of the ticket price, Ryanair sells direct via the web. Instead of a mixed fleet of aged aircraft, Ryanair operates a single model with an average age of just 2.5 years, reducing operating and maintenance costs. The radically lower cost base enabled Ryanair to offer low prices, which in turn created an entirely new segment of travelers. People who otherwise would not fly or only occasionally could now fly regularly. In the meantime, ancillary services account for a growing share of Ryanair's revenues.

While probably every entrepreneur and possibly every executive dreams of doing a Ryanair within his or her own industry, actually doing so isn't that easy. And it shouldn't be their ambition either. Let's not forget that a Ryanair, a McDonald's, an IKEA, an Amazon and other strokes of genius are, indeed, very rare. The more interesting question is what business executives can do to initiate or respond to new ways of making money at what we would describe as a more modest scale.

In this article we will first describe the design parameters

that together make up a business model – in other words, if you wanted to change a business model, the elements with which you would have to tinker. Using that framework, we will then give some diverse examples of companies that have successfully changed their business models on a modest scale. Finally, we will give some guidelines for addressing opportunities for a change in business model within your industry.

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Design parameters of a business model

If you were to design a business model from scratch, you would have to make four decisions:

1. What are the **boundaries** of my business, both vertically (the degree of integration along the value chain) and horizontally (the width of the portfolio of products offered and markets served)?

2. What is the nature of the **relationships** between my business and parties outside the boundaries of my business, such as suppliers, customers and partners?

3. Which **assets and capabilities** do I deploy to create value within my competitive environment in a unique and durable way?

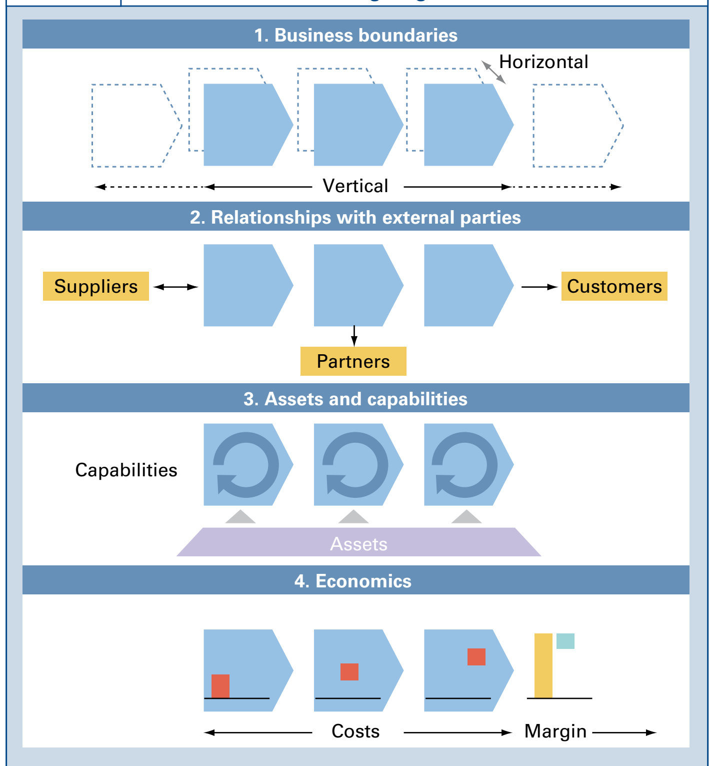
4. What are the **economics** of my business, i.e. the cost structure and pricing format that will enable me to extract value from my activities?

Table 1 provides more details and examples for each of these four decisions. They are of course related: the nature of your decision on one parameter will influence the others. For example, if you have proprietary assets you may be able to obtain a durable cost advantage, as US-based steel company Nucor has done with its mini-mill concept. Traditional steel mills use iron ore as feedstock and require huge investments in blast furnaces and rolling mills. By using scrap steel, electric-arc furnaces and thin-slab casting technology, mini-mills are much smaller, require a much smaller capital investment and can be set up in rural locations with attractive tax rates and a more loyal and non-unionized workforce.

Designing a working business model requires decisions for four parameters (see Table 1). The first decision relates to the boundaries of the business. You would need to draw the boundaries of your business both vertically and horizontally. "Vertically" refers to the degree of integration along the value chain, both upstream and downstream. For example, as a car manufacturer, will you make your components yourself, or would you rather specify them for production by a supplier? Likewise, as a fashion designer, will you distribute through independent retail outlets or have your own stores?

"Horizontally" refers to the width of the portfolio of products offered and markets served. For example, as a financial services provider, will you offer only banking or also insurance products to your retail customers, as is done in the so-called bancassurance concept? Likewise, as an online retailer, will you only sell books or also music, appliances, sports articles and other everyday consumer products?

Table 1 **Four decisions for designing a business model**



The most successful business models are those where the choices for the four design decisions are so intertwined that they are hard to copy by contenders.

The second design decision relates to the relationships with external parties. You would need to determine the relationships between your business and parties outside the boundaries of your business, such as suppliers, customers and partners. How do you distribute roles and responsibilities between you and those external parties? How will you share returns and risks with them? For example, in a franchise business, is it the franchisor or the franchisee who owns the real estate; can the franchisee freely set the price of the product sold through her outlet; are the royalties paid by the franchisee to the franchisor based on revenues or profit?

The third design decision relates to assets and capabilities. You would need to investigate which assets and capabilities you can deploy to create value within your competitive environment in a unique and durable way. For example, Coca-Cola Company's business model focuses on beverage creation and marketing through ownership of the concentrate recipe and brand, while entrusting production, packaging, distribution and merchandizing to more than 300 independent bottling operations. Although Amazon started out as a virtual retailer, it soon started investing heavily in warehouses and other physical assets because it was the only way to ensure seamless fulfillment of customer requirements. Ryanair's competitive advantage derives from assets such as a homogeneous young aircraft fleet, advantageous contracts with secondary airports and a novel workforce, whereas many incumbent carriers are stuck with stranded assets and legacy liabilities that are hard to change short-term, such as mixed fleets, expensive landing rights at main airports and burdening employee pension obligations.

The fourth design decision relates to the economics of the business. You would need to settle for a cost structure and pricing format that will enable you to extract value from your activities. For example, as a printer manufacturer, will you price the equipment low in order to gain market share and then derive most of your profits from the sale of toner cartridges, in analogy with Gillette's famous "razor and blades" principle? Likewise,

as a provider of on-line content, will you rely on pay-per-view, periodic subscription fees, sponsored links or paid advertising for generating revenues?

Another example is the story of the Xerox 914 copier, launched in 1959, as recounted by Henry Chesbrough. While the model was the first automatic, plain-paper office copier and provided copies of superior quality, it was too expensive to attract many customers at that time. Therefore, Xerox decided to lease the copier at a relatively low price and charge a fee per copy for copies in excess of 2000 copies per month. This scheme led to an explosion of copying by customers – and Xerox's heady growth.

A bold strategic move, such as Mittal Steel's takeover of Arcelor that combined the numbers two and one in the steel industry in 2006, does not equal a new business model. Moves like this may be seminal events that trigger or accelerate the makeover of an entire industry, but they are not about new business models.

The above example shows that the most successful business models are those where the choices for the four design decisions are so intertwined that they are hard to copy by contenders. It's like a secret recipe: others may guess which ingredients were used in which quantities, but they won't achieve the real taste when they try to reproduce it.

This example also clarifies the difference between a "new business model" and "radical innovation". Take, for example, the Smart car made by Daimler. It is a masterful radical innovation in terms of positioning (the "ultra-urban" car) and in terms of design (e.g. the removable door panels and safety shell structure). But it does not represent a new business model as we define it: neither the value chain, the relationships with external parties, the assets and capabilities nor the economics are very different from those for any other car brand.

Likewise, "reinventing the company" is not the same as a "new business model". For example, Finland-based Nokia transformed from an industrial conglomerate into a focused mobile telecommunications company. Germany-based Preussag transformed from a mining and steel company into the tourism and shipping company TUI. Netherlands-based VNU transformed from a publishing house into a market and consumer information services company now called Nielsen, with dual headquarters in the US and the Netherlands. UK-based Thomson transformed from a travel

and media company into information provider Thomson Reuters. These are fascinating stories about morphing into a new identity, but not about changing the way you make money in a given industry.

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Five archetype business models

Now that we understand what a "new business model" means, let's have a look at five illustrations of companies that have introduced a new business model on a modest scale but with success. We have deliberately chosen lesser-known and relatively small companies in order to show that you can find new business models all around you – and that you can do it too.

Each illustration corresponds with one archetype of a business model. The distinction between the archetypes refers to the emphasis that the designer of the business model has put on the various design parameters (see Table 2, which also gives some typical examples for each archetype). Although we simplify and may do some injustice by lumping different companies together in one and the same archetype, it helps to focus the mind and help you to see opportunities for business model change in your own industry, at corporate or business unit level.

Table 2	Overview of archetypes	
	The essence	**Typical exemples**
Share the cake differently	Engage with customers or partners in a novel way, thereby overhauling the industry's traditional cost structure and pricing format	• IKEA • JCDecaux • iTunes
Supplant the middleman	Go direct to customers, thereby establishing a more intimate relationship with the customer community	• Amazon • Tupperware Brands • ING Direct
Shift the cost curve structurally	Deploy a different asset base to achieve – for an existing product – radically lower cost and price levels	• Ryanair • Nucor • Skype
Redefine the customer experience	Exploit unique operational capabilities and systems to offer customers a previ-ously unimaginable purchase experience	• McDonald's • Zara • Dell
Convert product into service	Keep ownership of the product and charge custom-ers for its per-unit-use as if it were a utility	• Xerox • Salesforce.com • Cintas

Archetype 1: Share the cake differently

This archetype is mostly about the company engaging with external parties (customers or partners) in a novel way, thus enabling a complete overhaul of the traditional cost structure and pricing format used by the industry, benefiting both the company and its partners. For example, IKEA relies on its customers to pick up and assemble their furniture, which in combination with IKEA's design skills and scale leads to drastically lower prices. JCDecaux, one of the world's leading outdoor advertising companies, pioneered the street furniture concept: working closely with local authorities, bus shelters are designed and installed free of charge in exchange for the right to display commercial advertising on them. Through its original iTunes concept, Apple offered an elegant solution for the legal downloading of music at a reasonable price, benefiting both the record companies (responding to piracy), consumers (paying 99 cents for a single track instead of buying an entire album) and Apple (boosting sales of the iPod device).

The business model of SD Worx, Europe's third-largest payroll services provider, with revenues of almost €200 million, is an example of this archetype on a smaller scale within a B2B environment. Monthly payroll calculation is a peculiar process, involving at least three parties: the employer who pays gross salaries and various contributions; employees who receive net salaries and other benefits; and public and private administrations that receive fiscal, social and other contributions. All parties expect these calculations to be 100 % accurate and timely, each month, for every single employee, despite legislation, rules and employee particulars changing continually.

Archetype 1 is mostly about the company engaging with external parties (customers or partners) in a novel way, thus enabling a complete overhaul of the traditional cost structure and pricing format used by the industry, benefiting both the company and its partners.

Against that backdrop, SD Worx pioneered the concept of compliance-proof and fault-free payroll services, initially in Belgium, acting as intermediary between employer, employee and government. It takes care of all calculations and payment flows, relieving employer and government of the need to worry about accuracy and timeliness. In addition to the monthly payslip fee it receives from the employer, it is also allowed by the government to have the social security contributions float on its accounts for a couple of days, thus earning interest income.

Furthermore, in order to do the above economically, SD Worx invested heavily in technology, with a dual purpose: firstly and most obviously to automate calculations and industrialize the service delivery, and secondly to provide a web interface to the employer's payroll administrator in which employee (salary) data are validated and controlled at the input stage. This has two benefits. Firstly, it avoids mistakes percolating into the actual calculation system. Secondly, it allows the SD Worx single-point-of-contact to devote time to giving fiscal and social law advice to the payroll administrator rather than chasing mistakes through the system. As CEO Jan van den Nieuwenhuijzen states: "Without our technology we would not have been able to operate our business model economically and quadruple our revenues in the last 10 years."

Smart&co, originally called Weekendesk, is an example in a B2C environment. Founded in 2001, the company is expected to hit sales of €300 million this year after introducing a new business model in the gift business. For most

consumers, giving a gift, say for Mother's Day, is a complicated affair. You can give a money bill, which leaves spending flexibility with the beneficiary but is a rather frosty gesture. Alternatively, you can give a material present, yet with the risk of the beneficiary disliking it. A solution in between is the simple gift voucher, say from a perfume store, but this still has the disadvantage of the beneficiary being stuck with a product category and, maybe even more disconcertingly, seeing the monetary value of your gift.

To overcome all those shortcomings, Smart&co pioneered Smartbox™, a gift box containing various spending alternatives and guidebooks within a given theme (e.g. wellness) from which the beneficiary can choose. It aggregates offers from diverse partners (e.g. spa resorts), to which it gives a distribution channel yet which do not have to pay any set-up fee. When the beneficiary consumes the gift, Smart&co transfers payment to the partner, after taking a commission. In addition to earning income from these commissions, Smart&co earns interest income on the funds floating on its bank account. One of the benefits to the giver is that the box does not show the price he or she paid, and the beneficiary usually perceives the value of the gift to be well above its real value.

Archetype 2 is mostly about the company going direct to customers, thereby establishing a more intimate relationship with its customer community and using the changed cost structure to widen its product portfolio and/or offer lower prices.

Now present in 15 countries, the company is expanding beyond Smartbox™ into other leisure concepts. It describes itself as "the leisure intermediary", building on the same business model as for the gift box. And there is no shortage of ambition. As CEO Pierre-Edouard Stérin states: "Our business plan aims for a turnover of €1 billion in 2011. We want to be the P&G of leisure."

Archetype 2: Supplant the middleman

This archetype is mostly about the company going direct to customers, thereby establishing a more intimate relationship with its customer community and using the changed cost structure to widen its product portfolio and/or offer lower prices. For example, Amazon quickly evolved from an online retailer of books only to a bazaar-like platform for new and used items in more than 40 product categories, where consumers can post reviews and get recommendations. Tupperware Brands has a global independent direct

sales force of approximately 1.9 million "consultants", about half of whom use the Tupperware Home Party to sell kitchen and home-related products on a commission basis (percentage of sales). ING Direct operates direct retail banking activities online, over the phone and by mail in a number of countries, without the overhead and operational costs of other banks.

Archetype 3 is mostly about the company deploying a radically different asset base to achieve – for an existing product – cost levels previously considered unattainable and consequently price levels initially labeled suicidal by the incumbent competitors.

Groep H. Essers and System Alliance Europe (SAE) are an example of this archetype on a modest scale. SAE is a pan-European network of some 50 medium-sized, privately owned transport and logistics companies, among which is Essers. Each individual member has a strong position in its home market yet lacks the reach to be able to serve pan-European customers. As a consequence, they risk becoming sub-contractors of the big integrated logistics companies such as DHL or K&N. To counter that threat, Essers and others decided to form the SAE alliance and become a full alternative to the integrated logistics companies, thus preventing the latter from acting as middleman for them. SAE is much more than a loose alliance in which members cross-reference customers. They have uniform guidelines for processes and procedures. For example, they operate a standardized tracking and tracing system called CargoTrack, and provide online proofs of delivery. Their policy is to be the full owner of all their operating assets (such as trucks, information systems and warehouses) so that they are in full control of the promise to their customers. As Ivo Marechal, CEO of Essers, states: "By owning our assets, we are less dependent on others and more flexible. This enables us to provide more easily and quickly tailor-made solutions for every logistical problem of our client ." Furthermore, each member's services are assessed and made transparent through a system of monthly quality evaluations. This enables every member to compare its performance against the target goals and to implement immediate measures that are necessary to ensure customer satisfaction.

Archetype 3: Shift the cost curve structurally

This archetype is mostly about the company deploying a radically different asset base to achieve – for an existing product – cost levels previously considered unattainable and consequently price levels initially labeled suicidal by the

incumbent competitors. While doing so, it often benefits from a virtuous cost-price-volume spiral. Examples are the carrier Ryanair and the steel company Nucor, as discussed above. Another example is the voice-communications company Skype, which combined a "free" asset (the internet), its own software, the strength of its brand and the network effect to make phone calls virtually free.

Archetype 4 is mostly about the company exploiting unique operational capabilities and systems to offer customers a purchase experience they probably could never have imagined themselves.

A lesser-known example, similar to Skype's, is the company JAJAH, a telecommunications services company that provides its users with low-cost voice-over-IP rates for outgoing calls. The highest savings potential exists for calls to mobile phones, especially across different countries. JAJAH disrupted the traditional telecom value chain by replacing expensive international mobile calls (due to high mobile origination and termination rates) with two cheaper national call terminations. Its disruptive impact on traditional operators is enhanced by the innovative features it adds to its calling services (e.g. integration with profiles in social networking sites such as Facebook). Both Deutsche Telekom and Intel have taken a stake in JAJAH.

Archetype 4: Redefine the customer experience

This archetype is mostly about the company exploiting unique operational capabilities and systems to offer customers a purchase experience they probably could never have imagined themselves. For example, McDonald's redefined the food service experience through a closely controlled franchise chain where standardized food preparation is industrialized as in an assembly plant. Inditex, owner of the Zara brand, familiarized apparel shoppers with the "fast fashion" concept: it uses information and communications systems to feed back sales figures and trends from its outlets worldwide on a daily basis, thereby enabling its design and production facilities in Spain to renew the product line almost in real-time, thus avoiding the cost of markdowns on products not selling well. Dell, exploiting its lean supply chain management capabilities, gave buyers the opportunity to order a custom-built PC direct.

This archetype can also be found in a B2B environment, often at less well-known companies. Take, for example, Univeg, one of the world's largest suppliers of fresh produce

(fruits and vegetables) to retailers, with sales of almost €3 billion. Fresh produce is a seasonal and perishable commodity, traditionally supplied in abundance by mostly small farmers who carry little weight compared to the retail giants. In order to reduce this vulnerability, suppliers of fresh produce have introduced various business models.

One business model is that in which the players at each stage of the value chain try to gain scale all by themselves: bigger wholesalers, bigger transport companies, bigger farmers. At the farmer level this has historically led to the marketing cooperative. Well-known examples are Sunkist in citrus fruit and Ocean Spray in cranberries.

A second business model is that in which the produce supplier integrates forward, i.e. makes value-added produce and sells it as a branded consumer product in retail shops. For example, Chiquita is morphing from a banana farmer into a marketer of branded produce products such as Just Fruit in a Bottle® juice and Just Fresh Fruit™ salads. Dole Food Company is a similar example.

Archetype 5 is mostly about the company keeping ownership of the product and charging customers for its per-unit-use as if it were a utility, thereby often lowering the purchase barrier.

Univeg, which is barely 25 years old, created a third business model. It doesn't focus on being big at one stage of the value chain nor on integrating forward into branded consumer products. In order to be a match for the leading retailers, it provides a full service to them, following them geographically and guaranteeing daily fresh produce all year round. In order to live up to that promise, Univeg is vertically integrated and controls the entire chain, "from farm to fork". For example, it grows fruit in plantations in Argentina and sources vegetables from growers in Uzbekistan; it provides temperature-controlled logistics services in the US and washes crates in Spain; and it packages fresh pre-cut vegetables in Belgium and sells fresh soup in Sweden. The essence is that it operates a retailer-pull instead of farmer-push model.

Archetype 5: Convert product into service

This archetype is mostly about the company keeping ownership of the product and charging customers for its per-unit-use as if it were a utility, thereby often lowering the purchase barrier. For example, Xerox introduced the pay-

per-page copying concept, which contributed to the fast growth of the copier market. With its on-demand customer relationship management (CRM) product, Salesforce.com pioneered the software-as-a-service (SaaS) concept, whereby it hosts and operates the application for use by its customers over the internet. Cintas is the largest uniform rental company in North America: instead of manufacturing and then selling the uniform, Cintas takes care of it throughout its life-cycle, from manufacturing to laundry, repair and eventual replacement.

Arcomet is an example of a lesser-known and small company (with sales of €120 million) that introduced a business model of this archetype and thus became the world's biggest independent provider of tower crane rental services. Traditionally the global tower crane market has been served by a large number of manufacturers and distributors selling their product to construction firms. That model is a high-cost one for the construction firm: on top of the purchase investment are the costs of storage space, transport trucks and maintenance, whether the crane is working or standing idle. A construction company can justify the investment only if the crane is utilized for up to 85 % of the time over its entire 15-year lifetime.

Arcomet was a frontrunner in changing the economics of the business by transforming itself into a provider of rental and other value-added services, such as crane installation, the furnishing of operators, maintenance, transportation and even application engineering. A number of strategic choices enabled Arcomet to do this successfully. First, it keeps a fleet of very young cranes, reducing maintenance costs, increasing uptime and keeping customers happy. Second, it established a global presence, which brings two benefits: it hedges its dependence on the ups and downs of a single construction market, and it conveniently provides big customers with a single trustworthy partner around the globe. Third, it established alliances with two major crane manufacturers to be their exclusive distributor and rental partner. Fourth, it opted for a policy of transparency about crane utilization toward financing companies, thus earning their trust and expanding its own capital expenditure possibilities.

By changing the rules and scale of the business, Arcomet has managed to raise the hurdles for newcomers. In fact, as the company's business development director Mariano Moritsch says: "Many smaller competitors abroad prefer joining our winning team rather than fight a lost battle, which leads to further industry consolidation and further improves the economics."

Addressing opportunities

Drawing on the above principles and examples, we can formulate a couple of guidelines for creating opportunities related to a business model change on a modest scale.

The skill is to anticipate the inflection point in the cost-performance curve of the technology, and then secure your moves, including well-timed acquisitions, before others do.

Anticipate discontinuities

Many new business models are enabled by technological, regulatory or other external discontinuities. For example, Ryanair benefited massively from the deregulation of the airline industry in the European Union in 1992 and, as of 2000, from the possibility of making online bookings. The challenge is to spot and respond to discontinuities early.

Take, for example, Royal Philips Electronics, whose lighting division is the world's largest lighting supplier. Mutually reinforcing technological, environmental and lifestyle trends are pushing for the substitution of solid-state LEDs for the traditional incandescent bulb. In addition to being much more energy-efficient, LEDs also have a vastly longer lifetime than incandescent bulbs. This means that Philips would be losing a large stream of recurrent revenues from the bulb replacement market. Therefore, Philips Lighting is changing its business model from being a manufacturer of components to a vertically integrated provider of total solutions. To that purpose it has been acquiring in the last two years a series of large companies making lighting fixtures and systems, which also provide access to end-users such as contractors, architects and lighting designers. The advent of LEDs was not sudden, though: the technology first appeared in some commercial applications 10 years ago. The skill is to anticipate the inflection point in the cost-performance curve of the technology, and then secure your moves, including well-timed acquisitions, before others do.

Point your arrows at the soft underbelly of the dominant players

Unless you are one of them, competing head-on with the dominant players in your industry may not be a good idea. But, as is also the case with a thick-skinned mammoth, even the biggest player has a soft underbelly. Consider how you might attack it there. In many cases, a dominant player derives its advantage from scale, i.e. having large assets with a low marginal cost of producing an extra unit of output. But this operational advantage may also be a structural handicap.

For example, power generation has traditionally been a game for large players with enormous plants. But there can be only a few power plants in any given region, requiring costly transmission lines to connect them to energy users. This provides an opening for so-called "decentralized energy" generated at the user site, both from traditional and renewable sources. While its penetration will also depend on technological and regulatory developments, it may allow new business models with changes in the balance of power between the various actors involved: energy utility, equipment supplier, engineering firm, maintenance service provider, transmission grid operator, investor and user.

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One company that is seeking to benefit from this opportunity is Finland-based Wärtsilä. With a heritage in large marine engines, Wärtsilä is also a leading supplier of flexible power plants for the decentralized power generation market, now accounting for about one quarter of its total 2007 sales of €3.8 billion. Of that one quarter, 30 % comes from industrial self-generation, where Wärtsilä has installed 1,688 power plants worldwide, accounting for a total of 11 GW. Its advantage derives not so much from technology but from its global 24/7 service capability through more than 9,300 people. While third-party services are second nature to Wärtsilä (accounting for 41 % of 2007 net sales), they are arguably the soft underbelly of the large power utilities.

Stay entrepreneurial

Business models rarely originate in a flash from a visionary sitting down at a drawing board. In most cases they are the result of an entrepreneur finding his way by trial and error, until he hits upon the right recipe. Ryanair started out as a normal airline and it took the company 10 years, until 1995, to carry more than 2 million passengers; only afterwards did it really take off, with more than 45 million passengers in 2007. Amazon started out as a virtual retailer, but found out through experience that having its own warehousing was essential to ensure a seamless fulfilment of customer requirements.

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In this respect, the announced cooperation between Renault-Nissan, Better Place and the Israeli government to mass-market electric vehicles is an ingenious example of how a new business model can break a decades-old Catch-22 deadlock. The environmental benefits of battery-powered vehicles have been talked about for a long time, but the high cost of the cars and the absence of a recharging grid meant that car penetration and therefore investment in recharging infrastructure did not take off. The new business model aims to break this deadlock. After buying the car, owners will subscribe to a battery-replacement and charging plan based on their anticipated mileage. Better Place will deploy a network of 500,000 battery charging spots in Israel. The Israeli government extended a tax incentive on the purchase of any zero-emissions vehicle until 2019. As a consequence, car owners will have a lower cost of ownership yet the same convenience as with a traditional gasoline-based car. The scheme is expected to be operational in 2011. Turning it into a success certainly will be the result of entrepreneurship at its best.

Don’t rest on your laurels – business models evolve

Even the most feted business models need retuning as times change. Dell is now selling not only direct but also via retailers. Nokia is now customizing its models for carriers in the US. Apple is said to consider modifying its iTunes pricing model. As far as the iPhone is concerned, Apple used to get a share of the monthly usage fees from the mobile operator that had the exclusive sales rights in a

given country, but is now giving up this share in return for the operator subsidizing new handsets.

An equally interesting story is that of Tupperware Corporation. In the early years of this decade, Tupperware was suffering from flat or even declining sales in its mature Western markets. In an attempt to cope with this adverse situation, the company started experimenting with the essence of its business model, that is the Home Party direct sales concept. It also started selling its products through Target stores nationwide in the US in 2002. It closed down its party sales business in the UK in 2003 and started selling via stores. Both experiments flopped, forcing Tupperware to withdraw from Target and re-launch the party business in the UK. Instead Tupperware decided to broaden its offering from its idiosyncratic kitchen and home-related products to beauty and personal care. Through the smart acquisition of two direct selling businesses, Tupperware reconfigured its business mix from 90 % housewares and 10 % beauty in 2005 to 65 % housewares and 35 % beauty today. The latter business is growing much more quickly, in particular in emerging markets. In other words, through trial and error Tupperware realized it could successfully tinker with the horizontal boundaries of its business but not with the vertical ones.

The term "new business model" has an enticing ring to it, as it refers to a new and supposedly better way of making money. However, at the start of this decade it lost some of its lustre, since many of the so-called new business models launched during the internet hype didn't exactly make good money.

Insights for the Executive

The term "new business model" has an enticing ring to it, as it refers to a new and supposedly better way of making money. However, at the start of this decade it lost some of its luster, since many of the so-called new business models launched during the internet hype didn't exactly make good money. Furthermore, over-use by the popular press of highly admirable yet extraordinary examples such as Ryanair, McDonald's, IKEA and Amazon may lead many executives to discard the idea of a new business model as irrelevant to their daily job.

We have shown that thinking in terms of new business models can also be done meaningfully on a modest scale, within your industry, company or business unit. Such thinking provides effective insights into new ways of serving customers, interacting with partners and competing with

rivals. It answers fundamental questions about where you draw the boundaries of your business, how you relate to parties outside the boundaries, which assets and capabilities you can exploit, and how the economics of your business could be improved.

A good starting point is to scout around for technological, regulatory or other external discontinuities. These are often enablers of new business models. Another starting point, especially if you are a newcomer or small player, is to uncover the soft underbelly of the incumbents: the one area where their very size becomes a handicap.

Once you have discovered an opportunity, don't expect to hit upon the right recipe immediately. In most cases, putting in place a new business model is a matter of trial and error. And even after you have hit it, you may need to adapt your business model to the local situation and an evolving external environment. That way, business models are not pie in the sky but come down to earth.

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