

Forget your Customers and Develop Innovative Business Models!

Merely focusing on customers will not lead to groundbreaking changes in your business model. Instead, opportunities for business model innovation arise when focus is shifted to value creation for non-customers.

All organizations have certain assets or capabilities which can be valuable to non-customers. However, many fail to realize what they have and for whom it could be valuable, and perhaps most importantly how to create and capture the value. This article provides some thoughts on how to approach the subject and examples of how among others IKEA, P&G and Amazon.com have realized and captured value. I hope this will serve as inspiration for business innovators to examine their organizations with fresh eyes.

IKEA, the world's largest furniture retailer, has a vast majority of its stores located outside of city centers with comparatively low property prices. Each store attracts large crowds of shoppers from long distances, driving up sales for nearby retailers and affecting the value of surrounding property. IKEA realized the value created by their stores and customers, and through IKANO Retail Centres it now develops and operates shopping destinations and retail parks around IKEA stores.

Does your organization even know what you have that could be potentially valuable for others?

Procter & Gamble is credited with many business innovations including brand management, the soap opera, and now recently sourcing 50% of its product innovations externally. P&G has been licensing its technologies, trademarks and other innovation assets to other companies for a long time extracting value from non-customers. When P&G realized the potential in using a newly discovered technology during a diaper project, to enhance the performance of trash bags and food wraps, P&G didn't take it to market. Instead, the company decided to create a joint venture with Clorox, a rival firm in the cleaning category that owned Glad, a leading bag and food wrapping brand. The collaboration turned out to be highly successful, leveraging P&G's assets and capabilities within R&D and branding, as well as Clorox's products and established brand Glad. The total sales doubled in four years, turning Glad into a billion dollar brand.

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Amazon.com, a firm which started as an online bookstore, diversified into selling DVDs, CDs, MP3 downloads, video games, electronics, apparel, furniture, food, and toys. Realizing that its processes and IT infrastructure could be used by other companies and individuals, Amazon.com created another path of growth. Being able to guarantee a 99.9% monthly uptime, it started to offer a number of services such as storage, computer capacity leasing, end-to-end product sales and a full logistics platform handling orders, payments and shipments. Today Amazon.com powers and operates retail web sites for companies such as Target, Mark & Spencer, Lacoste and CDNOW. Amazon S3 (Simple Storage Service) reportedly stores more than 102 billion objects as of March 2010.

You have to create value for non-customers

The rapid pace of technology and business change raises serious questions for executives on how to continuously innovate and find new ways to create and capture value, what resources and capabilities to develop in-house and how to use collaborative or distributed value creation. The need for organizations to increasingly manage uncertainty and volatility is driving organizations to become more flexible, and utilize external resources and capabilities when and where appropriate.

Traditional value chains are in many industries being replaced or complemented with flexible value networks. When companies increasingly are seeking external resources and capabilities, or rely on complementary products and services for their business models to be successful, there will be increased competition for assets and talents. Why should a promising start-up collaborate with you and not your competitor? Why should software programmers develop applications for your platform and not competing platforms? Why should a university or research center develop new knowledge in your field? Why should innovators share their ideas with your company?

You already have things that are valuable to non-customers

Global connectivity of organizations has reduced old barriers and enabled new ways for companies to access external resources and capabilities. I often argue that if a company is creating and capturing value for customers today, the probability that the same company has assets and capabilities valuable to non-customers is incredibly high. You might have very loyal customers, or customers with high switching costs, information on customer

behavior and needs, strong brands, partnerships with leading value chain actors, superior processes, unique technologies, patents, trademarks, low cost production, quality programs, etc. all of which could be potential sources of business model innovation.

Philips, one of the largest electronics companies in the world, is not only providing its consumer electronics, healthcare and lighting products, but technology and IP which has the potential to cannibalize on the company's markets. At the company website, visitors can browse, access and license technologies and other innovation assets, and the company also provides knowhow, training, services and support to realize or support other businesses. Philips is selecting and sharing assets that are potentially valuable for non-customers to the extent that the "side-business" is becoming substantial. Does your organization even know what you have that could be potentially valuable for others?

You throw away things that are valuable to non-customers

Companies depend on customers for revenues which drive decision making and how companies prioritize resource expenditure. The importance of deeply understanding your customer at both the rational and the emotional level cannot be stressed enough. However, by always seeing things through the lens of customer value creation, companies constantly waste unique and valuable assets and capabilities.

Perhaps it's not what you deliver but how you deliver it that makes people buy?

Unique and potentially disruptive ideas, inventions, or business models that don't fit neatly into planned products or innovation initiatives are sometimes forgotten if at all seen. Customer priorities directly affect decision making, internal project prioritization, ability to attract attention within the company, identification of value within a project or organization, the definition of what a valuable invention is, collaboration decisions, deciding which inventions to patent or abandon, etc. Companies are designed to execute the existing business model efficiently for a linear world. When organizations start using external resources and capabilities for various purposes, things are no longer as linear.

Isn't this taking focus from the core business?

It is known that companies with a few highly focused core businesses historically have accounted for the majority of sustained growth companies. Spin-offs usually create more focus and value, something private equity companies know, often achieving their greatest success by buying orphan businesses from scattered conglomerates. Also, an undeniable lesson from observed transactions in the past is the higher success rate of acquisitions made for the purpose of expanding scale, than acquisitions to diversify and expand scope.

But what is your core business? Perhaps it's not what you deliver but how you deliver it that makes people buy? – Perhaps you should deliver something else as well given your superior way of delivering things? – Perhaps it's not the gadget you sell but the software interface that people like? – Could other gadget manufacturers need your superior software interfaces? – Perhaps the reason someone wants to collaborate with you is not your own qualities, but your existing customer relationships? – Could other companies be interested in getting access to the same customers?

My point here is not to diffuse company activities and focus, but to illustrate hidden value within your existing organization that is often overlooked, and which could be a source for business model innovation. What you choose to do with the new insights, with newly identified valuable assets and capabilities, is something completely different. You may choose to do nothing, change your core business model, spin-out new companies, create external business development groups, out-license technology and patents, have visitors on your webpage browse and access your assets to find areas for collaborations, create joint ventures in new business areas, etc. What I ask you to do is to consider available options and make informed decisions.

Business model innovation based on value for non-customers

There are many great concepts and tools for business model innovation starting from existing or potential customers such as analyzing the jobs to be done, the outliers using products and services in unintended ways, customers who use the non-premium market offerings in search of better solutions, potential customers who find the offerings unacceptable or beyond their means. Although analyzing existing and potential customers is often a great way to gain a focused competitive advantage and increase the share of the existing market, it is not the only starting point for business model innovation.

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Business model innovation can take its starting point in external factors such as trends in technology, society, culture, or from

responses to actions by suppliers, partners, customers, or competitors. It can begin in the existing business model, starting with “what-if” questions such as: what if we segmented our customers in this way, what if we offered this for free, or what if we delivered our products and services in this way instead? However, as I’ve demonstrated here, business model innovation can also take its starting point in looking at creating value for non-customers, and in this way your firm can uncover hidden value, enter new markets, or simply support and maintain your existing core business.

IKEA realized the value of its customers to non-customers. P&G created a joint-venture with a rival firm based on their new technology, R&D and branding capabilities. Amazon realized it could provide the backbone for other companies’ activities on the Internet.

Is there something your company should realize?

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