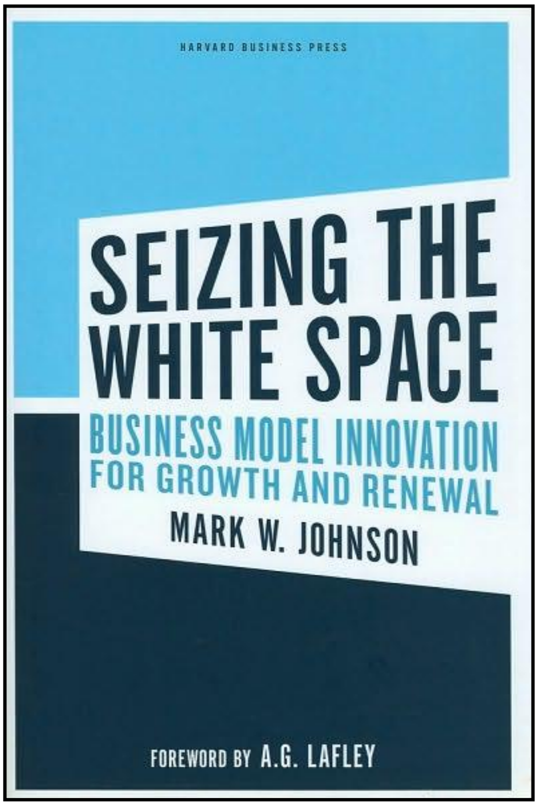
Business Model Innovation
For Growth and Renewal

SEIZING THE WHITE SPACE



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SEIZING THE WHITE SPACE

Business Model Innovation For Growth and Renewal

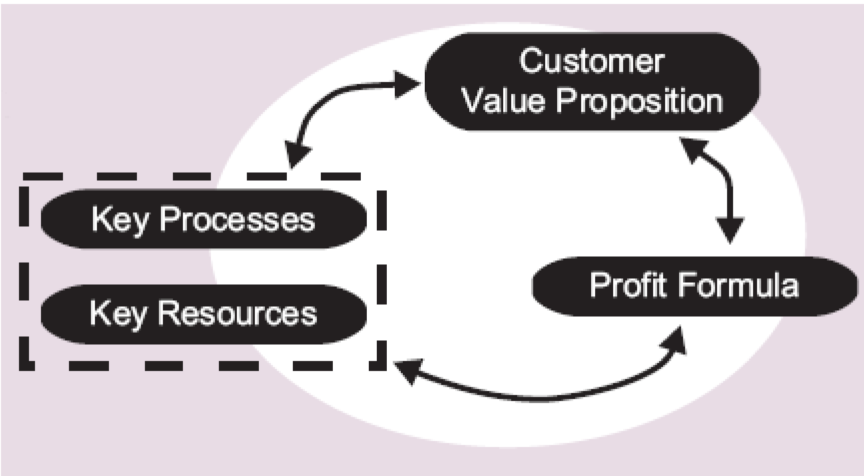
MAIN IDEA

Many companies struggle to succeed when they enter into "white space" activities – new commercial operations which are notably outside their existing core business and current competencies. They may recognize there is a viable commercial opportunity there but almost invariably companies try and serve new customers using their existing business models. More often than not, these expansion efforts are a failure.

To move into and harness a white space opportunity to grow your enterprise, start by developing a business model which will work for that new space. Don't expect your old business model to transfer across. Specifically, you have to rework the four building blocks of any viable business model:

1. Your customer value proposition – or the job you're trying to do.
2. Your profit formula – how you will make money.
3. Key resources – which you will need to make the right things happen.
4. Key processes – which you will need to get right to achieve customer results.

Try and make your existing business model stretch to include a white space opportunity is asking for trouble. It rarely, if ever, works. But develop a new business model which better suits that white space first and you stand a much better chance of success. When it comes to moving into white space, it's the business model you use that counts.



About of Author

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The Web site for this book is at www.SeizingTheWhiteSpace.com.

1. Commercial white space and the four box business model framework

White space arises whenever a company becomes aware of a commercial opportunity which is outside its core business market. It is beyond adjacent markets and therefore is an opportunity to serve new customers in radically new ways. The key to seizing a white space is not to try and serve that new market using the established business model. Instead, a new business model is required – a new and tailored combination of a customer value proposition, profit formula, key processes and key resources. Get the new business model right and you can and will conquer that white space opportunity.

Established companies always have markets in which they are comfortable and successful. Typically, these markets are a good fit with what the company does best. They have spent years finding customers for what they offer.

	Customers	
Organization	Existing	New
Poor Fit	X	White Space
Good Fit	Core Business	Adjacency

Most companies become very good at progressively growing and expanding their core businesses over time. They may even move into adjacencies successfully – perhaps offering similar products to different market niches. A white space commercial opportunity is something different again. A white space is the opportunity to move into uncharted territory. To succeed here, the company has to decide whether or not it can and will adopt a new business model – a different formula for making money, for harnessing different expertise and new ways to coordinate resources and activities.

To give an example of successfully seizing a white space opportunity, consider Apple Computer:

- Apple started as a major player in the personal computer market, but during the 1990s its market share fell from 20 percent to less than 3 percent.

- When cofounder Steve Jobs returned as interim CEO of Apple, he rolled out some upgraded computers. But then, in 2001, Apple introduced the iPod which it trumpeted as “the world’s first digital music player” despite the fact Diamond Media had launched a comparable MP3 player in 1998.

■ What made the iPod work, however, wasn't its technology but the fact Apple wrapped the new product up into a great business model. Apple launched the iTunes store eighteen months later to offer legal downloadablemusic at a great price point. Apple almost gave away the music at cost and instead made its profits on selling the iPod player.

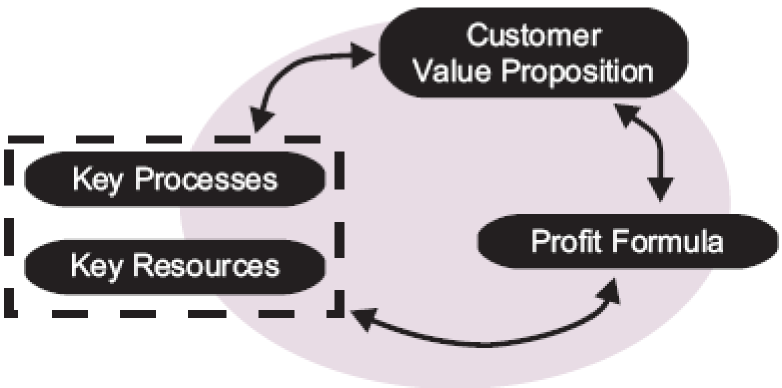
■ In just three years, the iPod/iTunes combo became a $10 billion product generating 50 percent of Apple's revenues. Apple's market capitalization went from $2.6 billion in 2002 to $133 billion in 2007 on the strength of that revenue stream. This move also redefined Apple from being a computer maker to a leader in the world of lifestyle media.

The key to Apple's success was not so much the fact its iPod was a good product. Other media players were very similar. Apple succeeded because of its business model innovation. It developed a strong one-two punch with the iPod/iTunes combo which was a strikingly new and innovative business model.

"It's no wonder, then, that business model innovation is an executive buzz phrase. A 2008 IBM survey found that nearly all of the more than eleven hundred corporate CEOs polled reported the need to adopt their business models: more than two-thirds said extensive changes were required. Yet despite all the talk, few seem to know how to pull it off. No more than 10 percent of innovation investments at global companies are currently focused on developing new business models. And the companies that do attempt it rarely succeed – despite all the talent and resources at their disposal. Most successful innovative business models are forged by start-ups. Why doesn't this immense promise and high-level attention translate to action? Companies can't pull it off because, as familiar as the term is, very few people really understand what a business model is (and what it isn't) or what model their organization is actually operating under, much less how they would go about creating a new one and why or when they should."

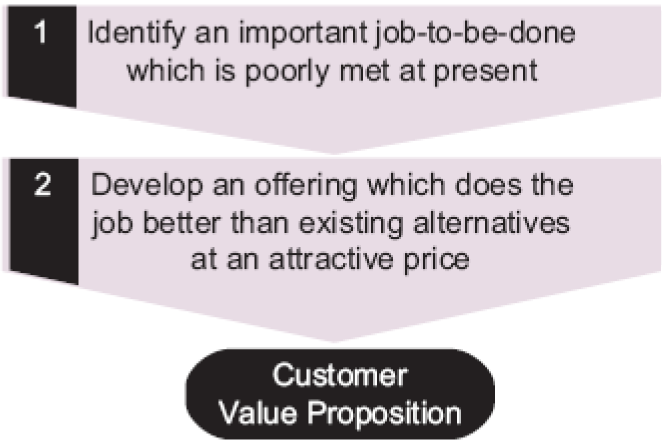
– Mark Johnson

A successful business model has four interrelated elements:

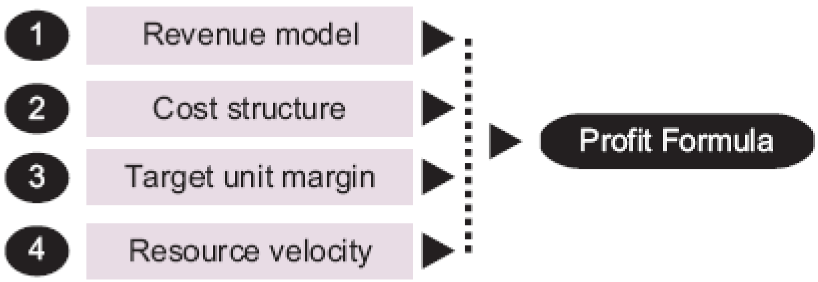


1. A strong customer value proposition – which articulates precisely what you're aspiring to do for customers. Customers buy your product or service to solve an important problem so the first thing you have to do here is to specify what the job-to-be-done is and howwhat you offer solves that problem. Note your solution will incorporate not only what you sell but also how it's sold and what else is involved.

Developing a vibrant customer value proposition is often a two-step process:



2. A viable profit formula – which is in essence a blueprint detailing how the company will create value. A sustainable profit formula takes into account the assets involved in delivering the offering and fixed cost structures so reasonable profit margins can be built in.



- ■ Your revenue model quantifies how much money will be made – price x quantity. Total revenue might also include sale of related products or services as well.
- ■ Cost structure details your fixed direct costs and all overheads which will be incurred in delivering your new customer value proposition.
- ■ Target unit margin is a calculation of how much each transaction should net in order for you to cover your overheads and achieve your desired profit level.
- ■ Resource velocity specifies how quickly resources need to be utilized in order to achieve your target volumes. This will include lead times, throughput, inventory turns, etc. The greater your resource velocity is, the more units you can make and sell and therefore the lower your margin needs to be per unit to make an acceptable profit.

3. Key resources – the unique combination of people, technology, equipment, funding and so forth which is required to deliver the value proposition to the customer in a scalable and systematic manner. Although it's not unusual for a wide array of resources to come into play, there are frequently just a few key resources which mean the difference between success and failure in the marketplace. For Apple's iPod, for example, it was the availability of the iTunes store which made all the difference between the iPod and other MP3 players. Resources might include:
• The personal involvement of key people
• Key technology, equipment or products

• Channels of distribution already in place
• The widespread availability of required information
• Specific partnerships and/or alliances
• Sourcing of funding or established brands
• Patents and other intellectual property rights

4. Key processes – are the recurring tasks which must be performed consistently in order to make delivering the customer value proposition repeatable. As for resources, there are likely to be just a few processes which are critical to successfully serving customers and ultimately in generating profits. Processes typically are:
• Design of next generation products
• Sourcing of suppliers and supply arrangements
• Manufacturing and marketing
• Human resources and training

Key processes and resources normally work in tandem to repeatedly and consistently deliver the customer value proposition and achieve the target profit formula. In many cases and instances, the synergy which is generated by processes and resources lies at the heart of the new business model's success. The glue which keeps the entire business model in proper balance are the business rules, behavioral norms and success metrics which get adopted:

■ Business rules will specify what are acceptable profit margins, credit terms, lead times, supplier relationships and so forth.

■ Behavioral norms will dictate things like what opportunity size is required for investment and what kind of channels are preferred and more. Behavioral or cultural norms guide decision making and provide consistency.

■ Success metrics take those norms and come up with measures which can be used systematically to evaluate ongoing performance.

For an established business, it's not unusual for the reasons why specific parts of the business model came about to fade into institutional memory. The only living remnant of these early decisions is often the rules, cultural norms and metrics which continue to get used.

"A company venturing into its white space without a clear framework for business model innovation is like a contractor trying to build a house with no blueprint to guide him. He can generate a spreadsheet that tells him building a home would be profitable and then gather the resources needed to construct it, but when the lumber and the concrete arrive at the site, the crew works aimlessly. Without a clear plan, any house that is built will probably look like the last house the crew worked on, because that's all they have to go on. If they do manage to create something original, it will have more to do with luck than with foresight. The business model framework brings the discipline of architecture to business model innovation. With the blueprint it provides, you can diagram your existing core business model and design new models to help you seize your white space. The framework is the structure on which a manageable and more predictable innovation process can be built – a structure that can unlock your creativity as you pursue transformational growth and renewal."

– Mark Johnson

"The customer rarely buys what the company thinks it is selling him."

– Peter Drucker

"The world is moving so fast nowadays that the man who says It can't be done is generally interrupted by someone doing it."

– Elbert Hubbard

"Every organization has a theory of the business. Some theories of the business are so powerful that they last for a long time. But they don't last forever, and, indeed, today they rarely last for very long at all. Eventually every theory of the business becomes obsolete and then invalid."

– Peter Drucker

"Innovation is risky but it's not random. Innovators have a disciplined invention process. They may not be able to articulate it, and sometimes the Eureka! moment happens in the shower, but it stems from a disciplined process. Seizing white space is hard. It requires looking at markets and customers in new ways."

– A.G. Lafley, chairman of the board, Procter & Gamble

2. The three instances when new business models are needed

After studying the marketplace for a while, you may become aware of new jobs-to-be-done or new customer needs you decide to fill. You may come up with an entirely new customer value proposition. The question now becomes: Do you leverage the strengths of your existing business model or develop an entirely new business model to commercialize the new opportunity? This question will most frequently arise whenever three circumstances emerge:

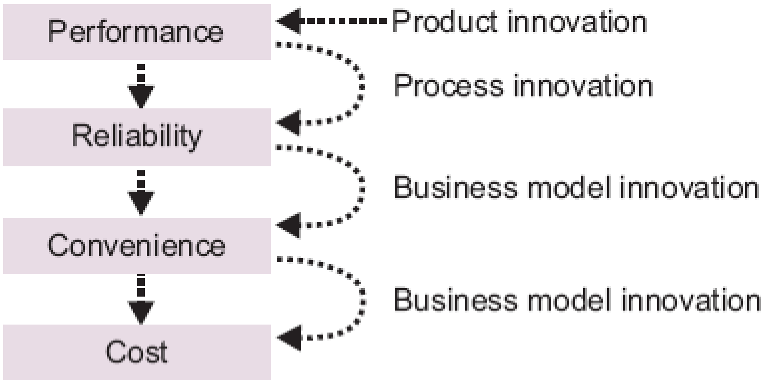
1. *You go after the white space within* – to fulfill unsatisfied jobs-to-be-done for your existing customers.
2. *You go after the white space beyond* – making your offerings accessible to more consumers.
3. *You go after fresh new white space* – as a result of massive industry upheaval and change.

The real challenge lies in developing an eye for the most promising opportunities and going after them in a systematic and repeatable manner. You will need to build a new business model to compete whenever:

- You change your current profit formula.
- You have to develop new resources and/or processes.
- You will need fundamentally different metrics, rules and norms to run your business.

The white space within

In every market, the basis of competition evolves over time:



- When a market first forms, customers are willing to pay a premium price for better functionality.

- Once all offerings reach a good-enough level, customers then want and will pay for higher quality and reliability. Process innovation becomes the key to success.

- Once everyone has reasonably functional and reliable products, customers then start being willing to pay more only if they get things done more quickly, more conveniently or in a waytailored to their precise needs. To succeed at this stage of market maturity, you have to change your business model around.

- When pretty much all the competitive offerings are equivalent in terms of performance aspects, companies compete pretty much entirely on cost. To get ahead now, companies have to embark on business model innovation to achieve greater efficiency which can then be handed on to customers through progressively lower prices.

Whenever the basis of competition shifts from performance and reliability to convenience or cost, the customer's basic job-to-be-done is changing in fundamental ways. So too is the customer value proposition you have to deliver to stay competitive. To generate growth, companies have to embark on business model innovation to move ahead.

Most developed markets are currently in either the convenience era or the commoditization era where low cost reigns supreme. This is perfectly illustrated by the market for personal computers. In the early days, companies like Apple, Compaq, IBM and Tandy focused intensively on making product improvements. Apple started strongly because its products were well integrated and therefore more reliable. Then Dell came along and introduced customization and therefore convenience. Dell prospered for twenty years but today the PC market is nearing total commoditization. Almost all PCs are so powerful they exceed customer needs and everyone sells through the Web. The challenge in this industry is now which company will introduce a new customer value proposition which enables them to move ahead of everyone else.

A good role model for addressing the white space within is Hilti, the handheld power tool maker. In the late 1990s, Hilti noted its market was commoditizing. Construction workers viewed power tools as indispensable yet they left them out in the rain and maintained them poorly. Builders were starting to think of power tools as being disposable. Hilti also noted at many construction sites, there was a vast array of cheap tools with mismatched components from different manufacturers becoming a nightmare to manage.

By looking at the customer's basic job-to-be-done, Hilti realized commoditization had in fact created an opportunity to compete on convenience and customization. The company came up with a leasing plan where customers could pay a monthly fee to have a full compliment of well maintained power tools ready to go all the time. Hilti's customer value proposition was: "You take care of building and we will make sure you have at your fingertips the newest technology and the safest power tools, all well organized and properly maintained, so you're ready to go."

The company's profit formula changed from having people pay up front to buy the tool to getting money month-by-month. Hilti also worked out what resources and processes had to be put in place in order for the company to become a service business as opposed to a manufacturer and seller of hand tools. Part of this entailed developing a Web site which would allow construction managers to view their tool inventories online and plan ahead. This Web derived data was then used by Hilti to manage and run its leasing operations.

Hilti did an initial test of its new business model in 2000 in Switzerland, its home base. The results were so encouraging within three years Hilti had rolled the program out worldwide. Today, thousands of companies use Hilti's power tool lease program and it contributes a significant proportion of the company's overall sales revenue.

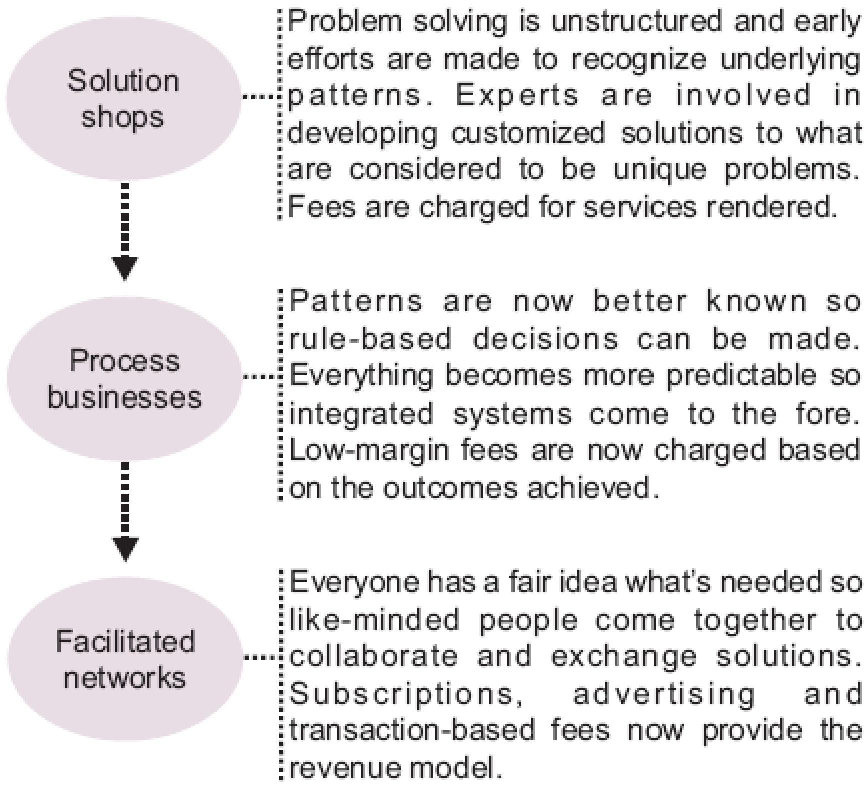
"Markets are born, grow, change, and die. Customer demand inevitably shifts, too, as do the jobs that need to get done. To stay relevant, you must remain vigilant to these changes and devise new ways to address them. At later stages of market development, these shifts are often more profound and require you to reconsider your business model or develop a new one. This brings the opportunity to seize your white space within: to achieve transformational growth within your existing market."

– Mark Johnson

The white space beyond

Seizing the white space beyond means to create new markets and find ways to serve new customers. It requires that you develop new business models which will deliver a compelling customer value proposition to potential customers who are currently nonconsumers – who have been shut out of markets because they are too expensive, too complicated or they have no viable access to offerings.

In just the same way as the basis of competition tends to evolve in established markets, the way we solve problems also evolves over time. There is a definite problem-solving continuum which looks something like this:



When the problem-solving ability of an industry is in its early or rudimentary stages, solution shops work best. Experts are expensive to hire but they are needed to figure out what's going on and to develop customized solutions. Once clearer patterns have emerged and decision making can become more rule-based, then processes businesses add value by providing high-volume solutions at a lower cost. Economies of scale now become vital to achieve. Then once knowledge becomes much more widely circulated and known, networks form where like-minded people come together to exchange goods and services, collaborate and even socialize. All kinds of commercial arrangements can be used simultaneously in a network including membership subscriptions and transaction fees.

With each of these transitions, white space opportunities are created to reach nonconsumers and open up new markets. The ongoing spread of communications technologies is rapidly democratizing one market after another. New opportunities are arising all the time to develop new customer propositions and new business models around these changes.

To illustrate, take the example of primary healthcare. Historically, when consumers have required medical diagnosis and treatment, they have seen their family doctor. By and large doctors practice in a solution shop setting. Highly trained doctors see patients who may have anything from a strep throat to a potentially fatal disease. All diagnostic procedures are expensive because they require the participation and judgment of doctors with high-level training and associated expenses. However, advances in medical knowledge have meant it is now feasible to diagnose a number of low-level ailments using rule-based procedures rather than the more complex diagnostic procedures a fully trained doctor would use.

To take advantage of this democratization of medical know-how, MinuteClinic has set up kiosks in pharmacies which allow people to turn up without an appointment and see a nurse practitioner within 15 minutes. These nurse practitioners are capable of diagnosing a limited number of common low-level ailments using rule-based diagnostics. They can then provide rule-based care for those ailments. As these nurse practitioners are less well-trained, they are less expensive which enhances their usability level from the consumer's point-of-view.

MinuteClinic is a genuine attempt to move basic health care from a solution shop setting into a process business delivery system. There are now also a large number of Web sites which are dedicated to sharing information about specific chronic diseases. As this happens more and more, a facilitated network will emerge where like-minded individuals will get together. Networks like this can accelerate and enhance the problem-solving process. Networks can also dramatically shorten the time it takes for pattern recognition to take place and rules-based decision making systems to emerge.

Some noteworthy examples of facilitated networks which have been established or are in the process of coming together would include:

■ The New York Stock Exchange
■ Telecommunications networks where all kinds of different players interconnect
■ Online brokerage businesses like eBay and Craigslist

Whenever an established company attempts to seize the white space beyond, it's vital that it attacks the problem with a new business model. This was highlighted by the experiences of Pandesic, a joint venture between SAP and Intel which was launched in 1997. SAP has historically sold enterprise resource planning software to huge corporations and it wanted to sell something to small and medium-sized enterprises (SAP's white space) so Pandesic was an attempt to do just that. Since SAP and Intel were both tech companies, their Pandesic offering was a complex and highly automated end-to-end solution – the kind of thing popular with large corporations but rather ambitious for companies without dedicated IT staff.

To make matters worse, SAP chose to market the Pandesic offering through the same channel partners which sold SAP's large company systems. The problem with that was those channel partners did not have the same level of incentives to sell what Pandesic offered because it involved less implementation support and consulting services to be delivered by the channel partners. Pandesic ultimately closed its doors after burning through $100 million in start-up capital. From a seizing the white space perspective, Pandesic's failure to develop a unique business model to reach its white space was fatal.

"One does not discover new lands without consenting to lose sight of the shore for a very long time."

– Andre Gide

"The real voyage of discovery consists not in seeking new landscapes but in having new eyes."

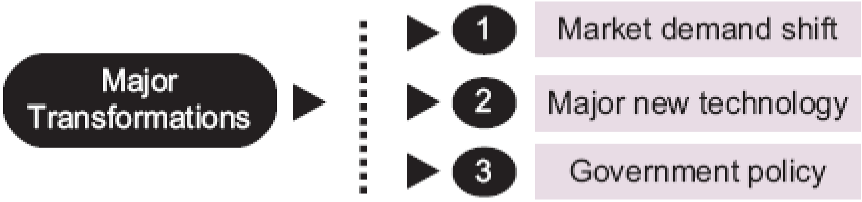
– Marcel Proust

Fresh new white space

From time to time, major marketplace transformations and events happen which forever change the nature of the game.

Acute episodic events of this nature would include:
• The terrorist attacks of 9/11
• The commercialization of the Internet
• The financial meltdown in the fall of 2008
• The unleashing of a free-market Chinese economy
• The UN push to address global warming causes

All of these events are acute and can dramatically change the game for entire industries and often complete nations. From a business model perspective, however, these cataclysmic kinds of events fall into three broad classifications:



1. Major and transformative market demand shifts – such as the end of the Cold War. All of a sudden, U.S. military planners started buying equipment that a fast, decentralized armed force would require rather than the complex, large-scale and secretive equipment which was required for the Cold War. The defense industry has had to adapt rapidly from being solution shops to become more like value-adding process firms to survive the change. The same kind of sea change also happened in consumer markets when China and India opened their economies. This suddenly brought billions of new consumers into the global marketplace.

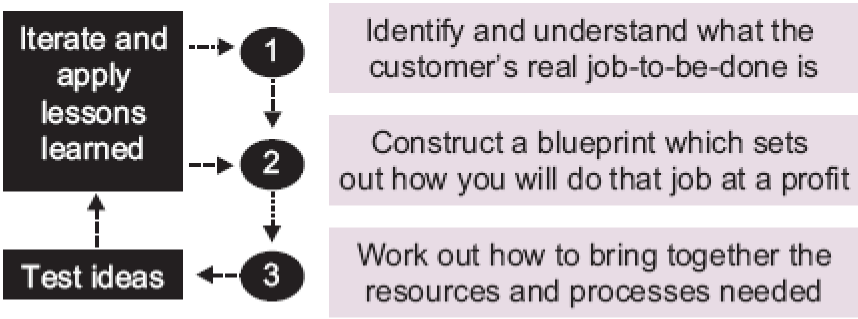
2. The injection of major new breakthrough technologies – which can cause new markets to form and old markets to evaporate almost overnight. In the early nineteenth century, people lit their homes with lamps which burned whale oil. When kerosene was developed as a cleaner burning alternative, everyone switched and whaling ceased. Then when Edison produced an electric light, nobody wanted the smell and dangerous flame of kerosene lanterns in their homes any more. Similarly, the iPod/iTunes business model started by Apple in 2003 has almost directly lead to a steep decline in the number of CDs sold by music retailers. The Encyclopedia Britannica, for example, had prospered for decades until it was attacked first by Microsoft's Encarta and then by the Wikipedia-Google one-two punch. At the present time, the newspaper industry appears to be in a death spiral because it has always viewed the Internet as a threat rather than an opportunity for growth. Instead of trying to develop new revenue models which will harness what the Internet does best, publishers are trying to hold on to their traditional business models.

3. Changes in government policies – in particular deregulation. When the airline industry was deregulated in Europe in the 1990s, low-cost entrants suddenly materialized all over the place. When health care was deregulated in the United States in 1973, health maintenance organizations (HMOs), provider organizations and all kinds of hybrid businesses rushed to join the marketplace. With the figurative stroke of a pen, changes in regulations can dramatically change entire industries.

NBS NEONET KOREA

3. How to turn business model innovation into a repeatable process

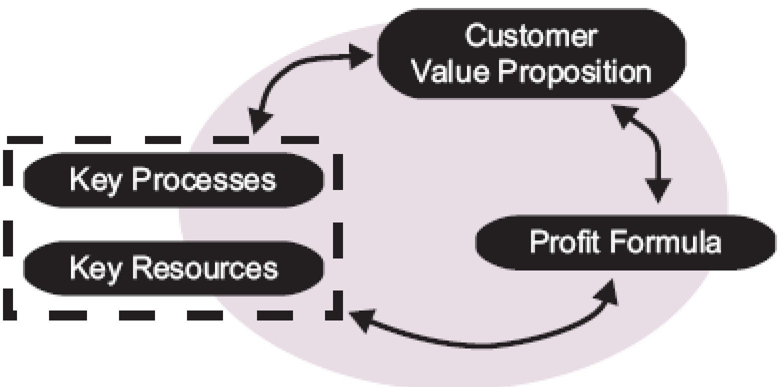
Rather than relying on luck and intuition to achieve growth, business model innovation should be structured and systematic. This is the only way it will become repeatable and therefore able to be optimized. To successfully seize the white space which is available to you, the three steps involved are:



"Conceiving of a truly innovative new business model does not need to be purely (or even mostly) a matter of imagination, inspiration, serendipity, or luck. It can be an orderly process that uses structure to unlock creativity, rather than the other way around. At its heart, the four-box business model is a framework for generating the right questions and assumptions, for organizing and categorizing them in a constructive way, and for implementing, testing and learning about them in the right order. Keep in mind that business model innovation is an iterative journey. You may need to move back and forth between the boxes before you come up with the right design that makes all four components work together correctly."

– Mark Johnson

The challenge here is to come up with a new business model which is not an extension of what you've done before, nor is it to be an enhancement of what your competitors are already doing. To achieve genuine game-changing success, you have to find important, unfilled jobs-to-do which customers in your market already have and figure out how to do those jobs profitably. In essence, you have to look at your market with fresh eyes and then bring together the four essential components of a business model to make the right things happen.



"Business model innovation should be focused on the pursuit of something grand – changing the game in an existing market, creating a whole new market, transforming an entire industry. Business model innovators should be hunters of big game and leave the harnessing of core assets to others."

– Mark Johnson

There are three steps involved in systematically trying to come up with a fresh and original business model:

1 Identify and understand what the customer's real job-to-be-done is

The trick here is to take a jobs-based approach rather than the more conventional needs-based approach. Therefore, don't ask: "What do you need?" Instead, you should be asking: "What job are you trying to get done?"

In the case of Hilti, for example, if the company had asked builders what they need, they would have said "more reliable tools" or "cheaper power tools". When the company observed how customers were using its products, however, it noticed keeping track of all the tools on a job was a major pain. The job the customer was really trying to get done was to have the right power tool available for use when it was required and for all the tools to be well maintained and managed. Hilti then went to work developing a customer value proposition around that job.

Remember jobs can be financial, emotional or social in nature. All of these are an integral part of what the customer desires to accomplish. The fashion industry, for example, has the job: "Make me feel good about the way I look" but this might be expanded to: "Help me fit in, look trendy, attract a mate, feel confident and impress others".

It's natural to think of your market from the "inside out" – from the perspective of your existing products and services. To come up with a game-changing new business model which is not an extension of what is already being done, however, you have to focus on the customer's unmet jobs which are not being filled by you or your competitors. You have to look at everything with fresh eyes.

2 Construct a blueprint which sets out how you will do that job at a profit

Once you genuinely understand what the customer's job-to-be-done is, you then create a blueprint of the business model which will deliver what's needed. Or put differently you have to devise and then work out a delivery mechanism for an offering which does the job better than any other alternative at the lowest feasible price.

The sorts of questions you might seek to answer here include:
- What is the job-to-be-done?
- Can I fulfill it with a product, a service or some sort of combination of the two?
- Will the optimum offering be bare bones or comprehensive?
- What level of customer support will be required?
- Will customers pay a fixed price or a variable price?

■ Will they pay all at once or in installments?
■ Will we deliver this offering ourselves or use third parties?

Once you've thought through all the issues, you can then specify the general specifications of the offering you have in mind. This is the makings of your customer value proposition which you should set out in some detail. Armed with your customer value proposition, the next challenge then becomes to devise ways your company can make money by delivering this offering. You need to give thought at this stage of development to your preferred profit formula.

In just the same way as your business model needs to be fresh and original rather than a reworking of your existing business model, you have to be creative in developing your profit formula as well. Try to follow this kind of flexible sequence:

■ Ask yourself: How big does the aggregate profit need to be in three to five years time for this opportunity to be worthwhile to our company?
■ Based on that, what sales revenue wouldweneed – units sold times the estimated market price per unit?
■ What would we expect the total cost structure per unit to be – taking into account all fixed and variable costs?
■ What then would be our target unit margin and our basic resource velocity (in terms of inventory turns and so on)?

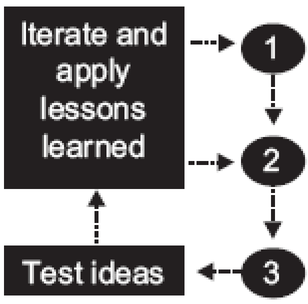
By working backwards, you can come up with a projected income statement based around the assumptions you've made. You're also starting to identify the resources which will be required to deliver on your customer value proposition. This will be helpful for two reasons:

1. You'll identify which resources can be shared with your existing core operations thereby lowering your start-up costs.

2. You will also identify early on potential points of conflict will be where people using core assets could interfere with the success of your new business model.

3 Work out how to bring together the resources and processes needed

Coming up with a fresh and innovative business model is one challenge. Making that business model leap from the theoretical to actual is another challenge altogether. The best way to do this is to take small steps – put forward a hypothesis, test what happens in the real world and then apply what you learn to do better in the future. In other words, implementation centers squarely on iteration as the engine to move forward.



You can pretty much guarantee that the business model you ultimately end up using will bear little if any resemblance to the one you first dreamed up. As you start to identify the key resources and processes which will be required for your new business model, you carry out tests to determine whether or not you have selected processes correctly. Implementation is also about finding out whether or not you can integrate everything together into a business model that works in the real world.

Ideally, implementation should be pursued in three distinct stages:

1 **Incubation** Establish profitability

In the incubation stage of the implementation process, you identify the critical assumptions of your business model and teach each in an orderly manner. What you're trying to do here is validate your thinking and identify what you don't know.

By testing and learning, not only do you figure out whether your assumptions are in fact correct. You can also try and find a foothold market where you can do some test marketing. This will be a small geographic region or a specific customer group which can serve as a low cost laboratory where you can fine-tune your offering before rolling it out to the broader markets. The incubation stage also allows you to identify any mismatches where elements of your business model don't mesh together.

This stage is also where you establish profitability and the best metrics to be using to determine your success. You will have some ideas on these subjects beforehand but the incubation stage lets you road test and stress test your assumptions.

2 **Acceleration** Start to reap desired revenues

Once you've proven your new business model will be viable, you then start to ramp things up. In this stage, you begin setting up all the repeatable processes which will make your new business model profitable. Generally the acceleration stage is where you:

- Refine and then standardize your processes.
- Establish the business rules you want to use from here on out.
- Define the metrics that will track ongoing success.

Acceleration usually involves moving from your foothold markets to broader markets. You still keep experimenting and adjusting as you go as there are always processes which will need further refinement before they get scaled up. You keep monitoring how the elements of your business model are holding up and working together. Your rate of acceleration increases or decreases in response to what you find in the marketplace.

3 **Transition** Generate real large-scale revenues

The key question to consider here is whether the new business model should now be integrated as the core of your existing enterprise or whether it should remain as a standalone unit in order to thrive?

You will probably find it best to keep your new business model a separate unit when:
• It requires a different brand and customer value proposition.
• It is disruptive to the existing core business.
• It requires the use of different business rules and metrics.

Integration of the new business model into your core business will likely be feasible if:
• It has much the same profit formula.
• The new model generates significantly higher margins.
• The new model enhances your core brand.
• The new model has the potential to reinvigorate your core.

Some organizations have a history of enthusiastically embracing change. If this happens to be the case, then it's most likely the new business model will be able to be nurtured and expanded successfully within your core business. Larger units frequently come to dominate smaller units within an enterprise, so unit size will often be a determining factor here.

There is also one other issue which will impact on all three stages of the implementation process.

"If the core business is successful, it should not be surprising that everyone in the organization is loyal to the model underpinning its success. To learn to be open to the kind of transformative opportunities that require new models, then, we must understand how the existing business model works, through all its many parts, to preserve the status quo, just as it was designed to do."

– Mark Johnson

Existing businesses are locked into the prevailing profit formula. Therefore, whenever new ideas come along, the gut instinct of everyone in management will be to look at the newidea and ask:

■ Will this new idea die and go away if we simply starve it of resources and ignore it?
■ Wouldn't it be better just to graft the best features of the new business model into our existing business model and go forward from there?
■ Won't pursuing the new business model cannibalize our current revenue streams?
■ Why should we pursue this new profit formula when we still have so much room to fine-tune our existing business model to make more money?

Again, this comes back to the issue of the rules, the norms and the metrics which get used inside the company. To pursue a white-space opportunity, you have to explicitly specify what rules and metrics will now be used. You have to release people from complying with the old rules and specify what new rules will replace them. If you don't do this, all sorts of conflicts of interest will arise. You also have to get the top management onside with the new rules and metrics because the mandate to adopt those new versions can only come from the top.

Probably the best example of a company which implements well is Internet pioneer Amazon.com. Amazon began as an online book seller. It then started selling all kinds of easily shippable consumer goods. A few years later, Amazon started offering a commission-based brokerage service to third-party sellers wanting to open their own online storefronts. In 2000, Amazon launched a Web services platform offering IT services. In 2007, Amazon launched its Kindle e-book reader along with an integrated content delivery platform. By consistently moving into its white space opportunities, Amazon has grown its revenues from about $4 billion to nearly $20 billion in 2008 but what truly distinguishes the company is the fact that whenever Amazon identifies new opportunities to grow, it conceives and then builds new business models to exploit those opportunities. Simply put, Amazon succeed because it is built to transform and evolve into something new all the time.

“If you want to continuously revitalize the service that you offer to your customers, you cannot stop at what you’re good at. You have to ask what your customers need and want, and then, no matter how hard it is, you better get good at those things.”

– Jeff Bezos, CEO, Amazon.com

“To create new growth, spur transformational change and renew our companies, we must learn to seize the white space through business model innovation.”

– Mark Johnson