



HILTI: BUSINESS MODEL INNOVATION

SECTIONS B&C

RC STRATEGY

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Business Model Innovation

- Hilti is a company with a successful strategy and a competitive advantage, that is contemplating extending its advantage: take one source of competitive advantage (selling high quality tools) and potentially building a related but different advantage (offering fleet management of its tools to construction companies)
 - This instance is representative of similar attempts by companies to move from offering products to services (e.g., SaaS, auto lease v. buy, music subscription v. purchase)
 - Some companies are moving in the opposite direction as well, from offering services to products (e.g., LegalTech, tax filing, asset management)
- Hilti's attempt at business model innovation:
 - Is not in response to a crisis
 - Is not in an emerging industry
 - Is not driven by change in technology, regulation, demographic changes, or changes in consumer preferencesYet, it is an attempt to move into a new category of offering
- When does business model innovation make sense?
What are its limits?
What are the organizational requirements to accomplish it?

Challenges in Implementing a Business Model Innovation

- In concept, it's great to innovate by anticipating and meeting latent customer needs
- But, in practice...
 - It is hard to discover and satisfy latent needs
 - By definition, the customer isn't aware of the needs
 - Members of your firm may also doubt they exist
 - And your firm probably lacks the capabilities it needs
- Thus, business model innovations face the four-fold challenge of:
 - Innovation: what does the customer need (not just want)?
 - Customer education: does the customer appreciate the value of the new offering?
 - Internal persuasion: are my constituents prepared to make the changes to deliver the new offering?
 - Capability development: do we have the ability to deliver the new offering in an effective manner?

Implementing a Business Model Innovation

- There is no magic formula, but a few things help
 - A powerful story of why the status quo is dangerous
 - A compelling vision of a brighter future
 - A set of restless leaders
 - Ownership that is supportive of management
 - Resources to invest in the short term to achieve returns in the long term
 - A sandbox in which to try out new ideas
 - A track record within the organization of scaling up sandbox ideas and celebrating innovations

Hilti: Strategic and Organizational Changes
Required to Implement Fleet Management Strategy

Aspirations

To achieve profitable growth above and beyond the trend of the relevant worldwide construction markets

Vision: To be the leading supplier of high-quality selected tools and fastening systems for professional customers in the construction and building maintenance industries

Advantage

- Premium price for a technologically superior product

Scope of Advantage

- Customer scope: Focus on commercial segment (B2B) only
- Product scope: Focus on high-quality products - tools for measuring and aligning, drilling, chiseling, and demolition; cutting and grinding; fastening and installation; firestop and insulation
- Geographic scope: Global
- Vertical scope: Vertically integrated design, manufacturing, and distribution sell directly to customer. Outsourcing of non-core activities. 20% make, 80% buy. Produced in-house parts that differentiated via cost or quality advantage, or needed IP protection

Values

- Commitment
- Integrity
- Responsibility
- Trust
- Tolerance
- Respect for others
- Willingness to learn and change

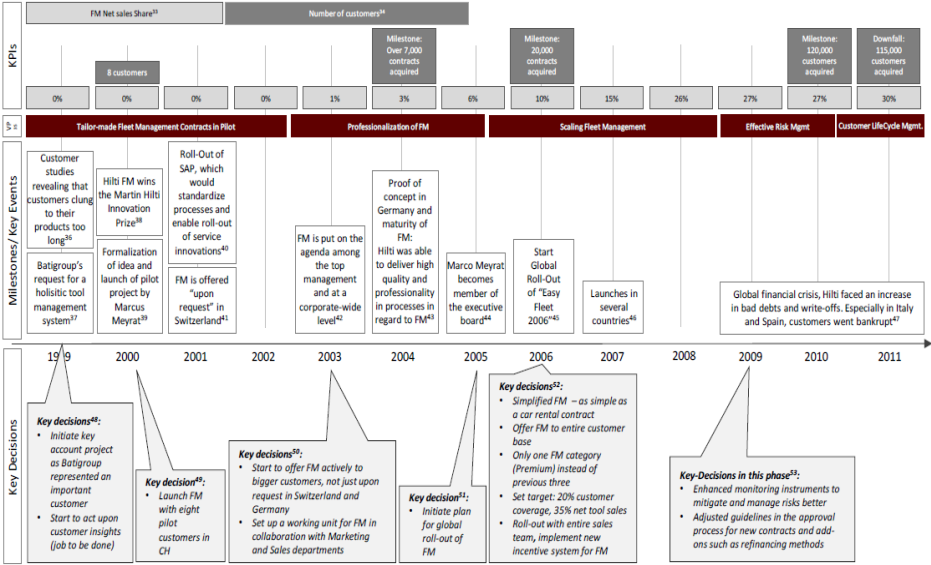
Distinctive Activities



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Hilti: Implementing Fleet Management



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Source: Ramon Casadesus-Masanell, Oliver Gassman, and Roman Sauer, "Hilti Fleet Management (B): Toward a New Business Model," HBS case 717-465, and sources cited therein.

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