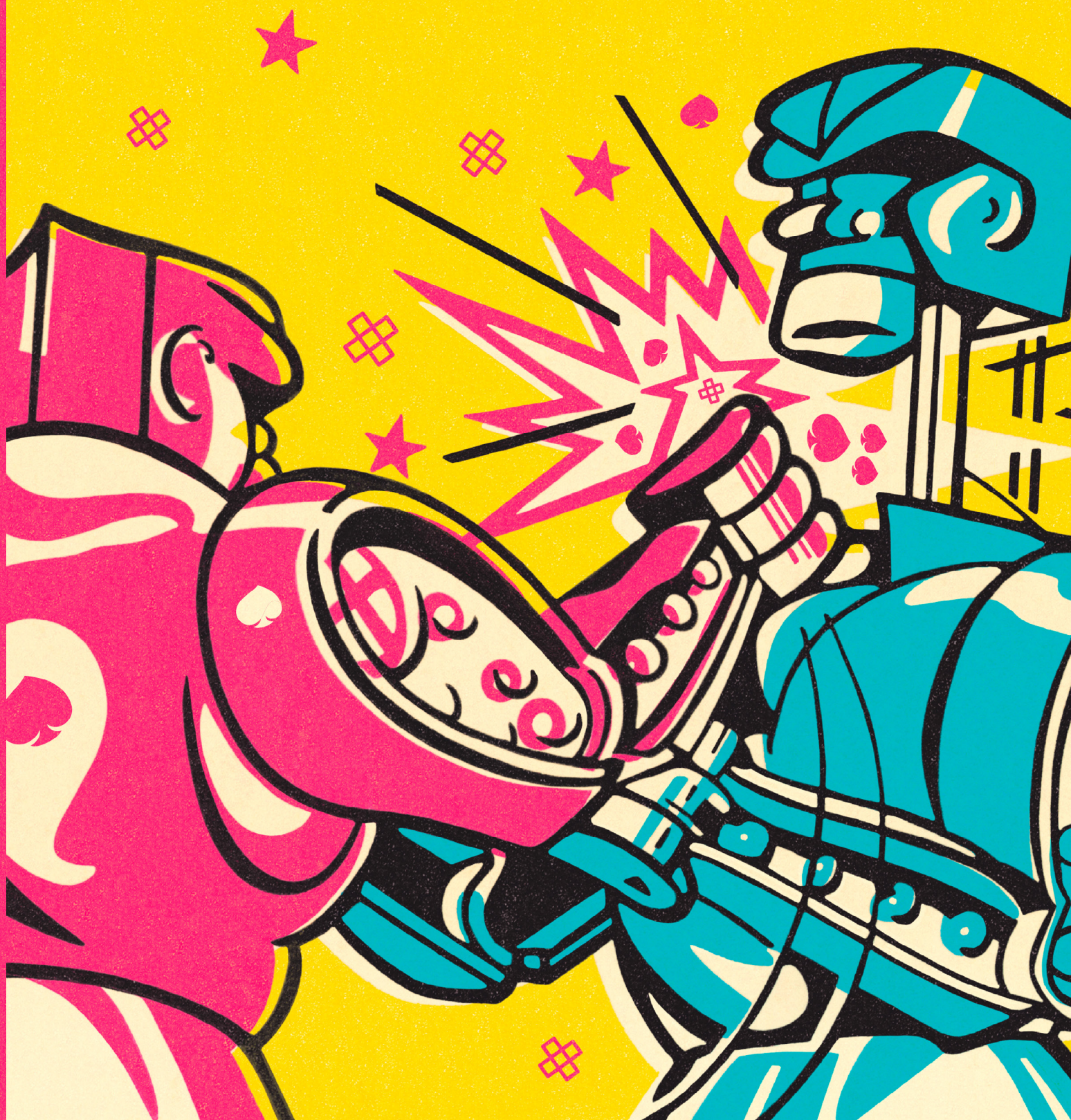


When disruption hits your business model

Fahrenheit212
Part of Capgemini Invent

How to survive the collision



So much has been said about disruptive innovation, that it can sometimes feel that to be in a traditional, scaled business is to somehow be on a fast track to extinction.

That's not helped by a popular narrative of disruptive innovation as one of Blockbuster and Kodak-style meltdowns.

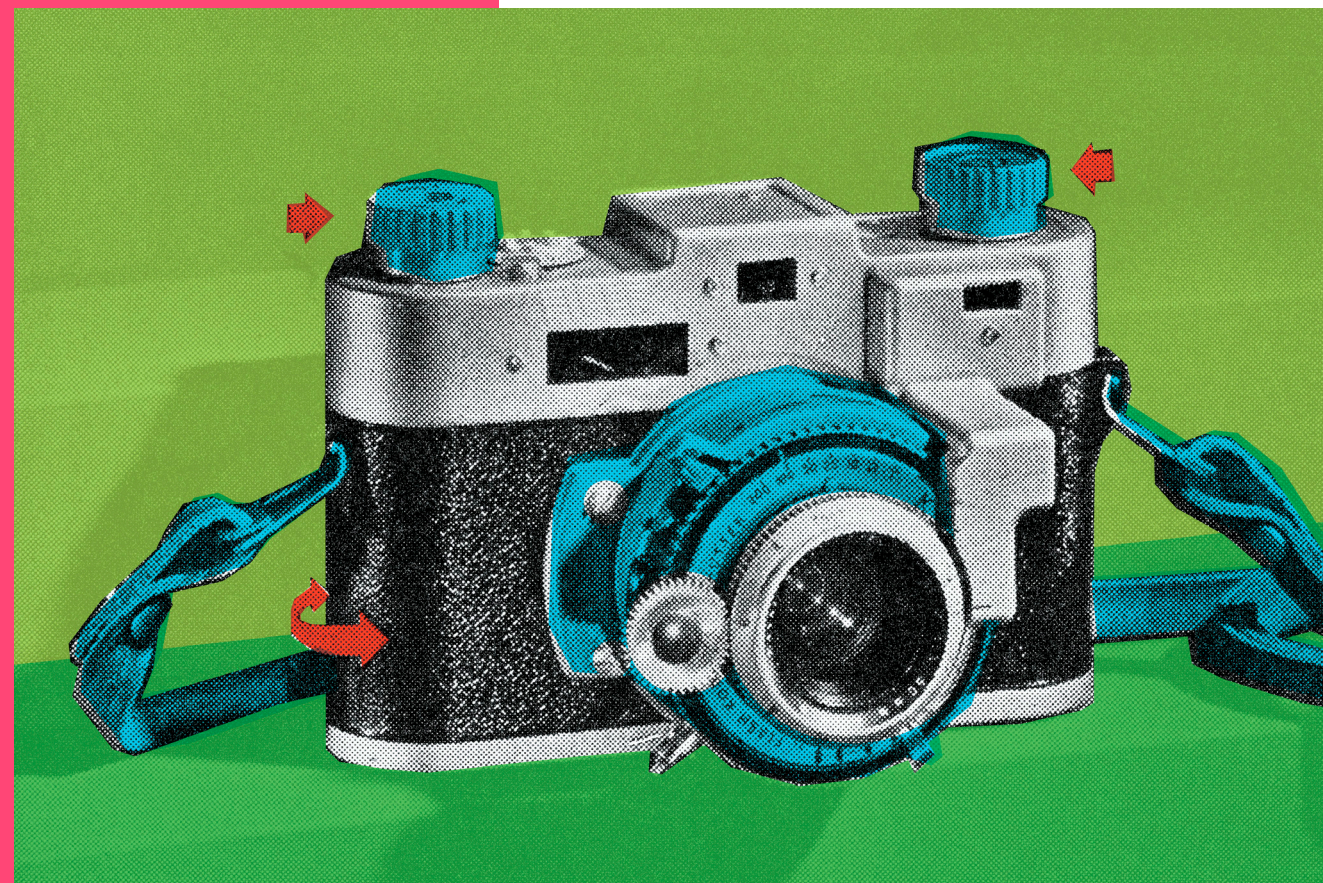
Scaled businesses are remarkable success stories – to have survived from start-up to profitable-at-scale is no mean feat. The threat of disruption might be existential, but that doesn't negate the fact that within the success of the current business lie the clues to the shape of the future business.

In our experience, surviving the collision does not mean starting from scratch. The answer doesn't lie in abandoning the current business in favour of something completely new and different, but rather in innovating the right elements of the current business model in response to disruptive changes in the external system.

How to do this? While there is no perfect answer, there are some common tools and approaches which can help successful businesses today is to identify where those differences might lie and how to respond to them, while also capitalizing on the advantages that can be sustained from the current business model.

Disruption happens due to changes in the external system – from regulatory changes, to technology changes to changes in consumer attitudes, so in some ways the collision is inevitable for any business.

But that doesn't mean that you can't pick the right battles and respond in the right way. In fact, with vision, preparation and a gameplan, the collision can be the impetus to the next version of your business. Here's how...



First, lift your business off the canvas

Mention business model innovation and the business model canvas is never far away. Alex Osterwalder's brilliantly simple tool for expressing the basic of a business model on a single page has made it so much easier to understand and compare business models.

But while the canvas is a great tool for recording the 'what' - the component parts - of a business model, it's not particularly good at representing the relationships and dependencies between those parts - the why, how and the how much that will determine the viability of the model.

It's in the details of the "how does this thing work?" that disruption happens, and so when we use the business model canvas within an innovation process, we use it alongside three additional tools that can help to answer our why, how and how much.



1. A NORTH STAR

A clear sense of where the business wants to be, the North Star should give it license to challenge current paradigms.



2. A COMMERCIAL MODEL

A simple model that forces the business to build a picture of what the P&L of the new business looks like when it's operating at cruising speed, does it sound right? Do the assumptions feel fair? This is powerful in that it gets into detail quickly, not to the extent that you get stuck in the weeds, but rather to give you a rapid reality check, enabling you to identify the points of pivot early.

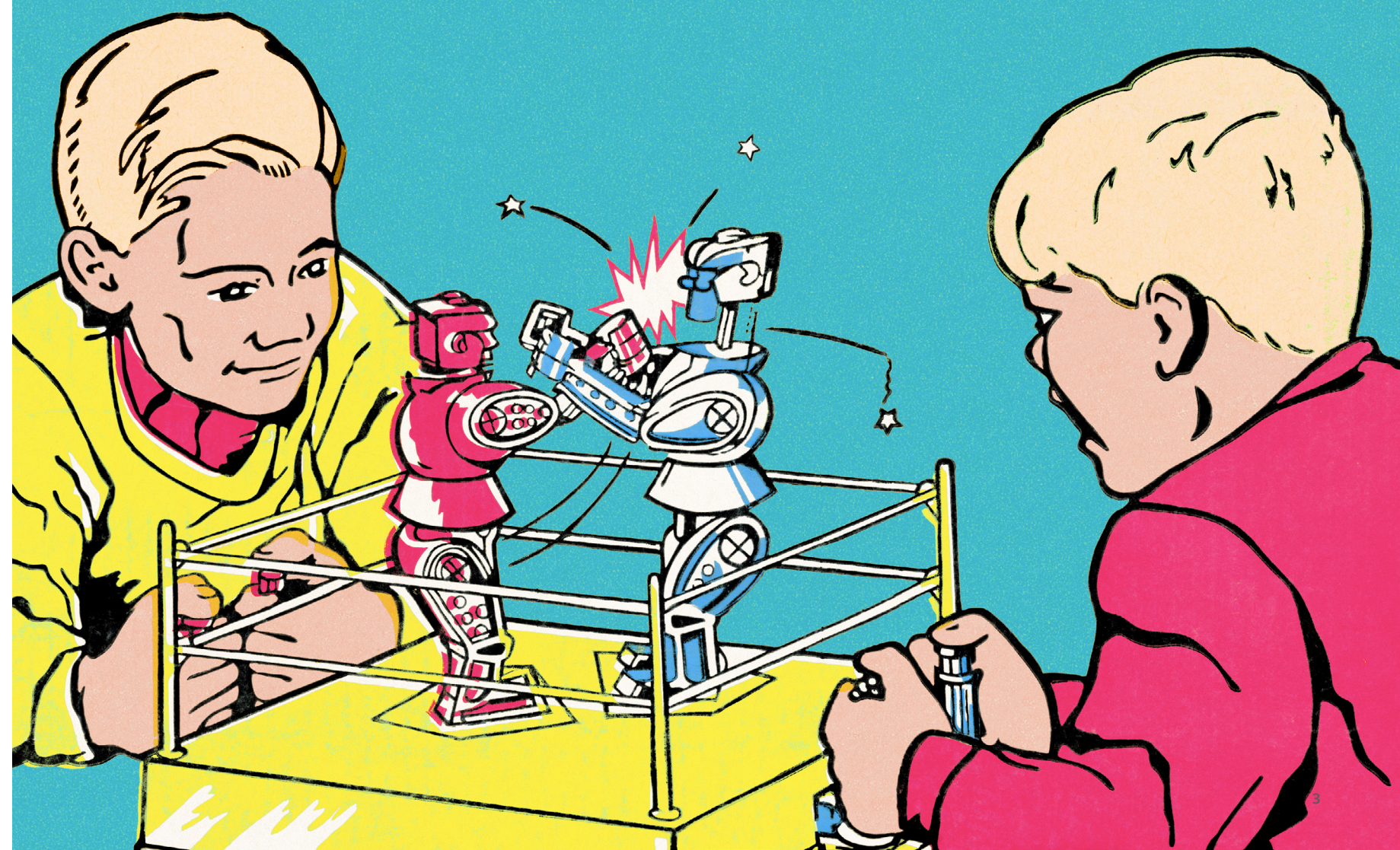


3. A NARRATIVE THAT DESCRIBES THE DYNAMICS OF THE MODEL

Not only does this help to express the critical relationships between the components of the canvas, but it can also help to sniff out inconsistencies and wishful thinking.

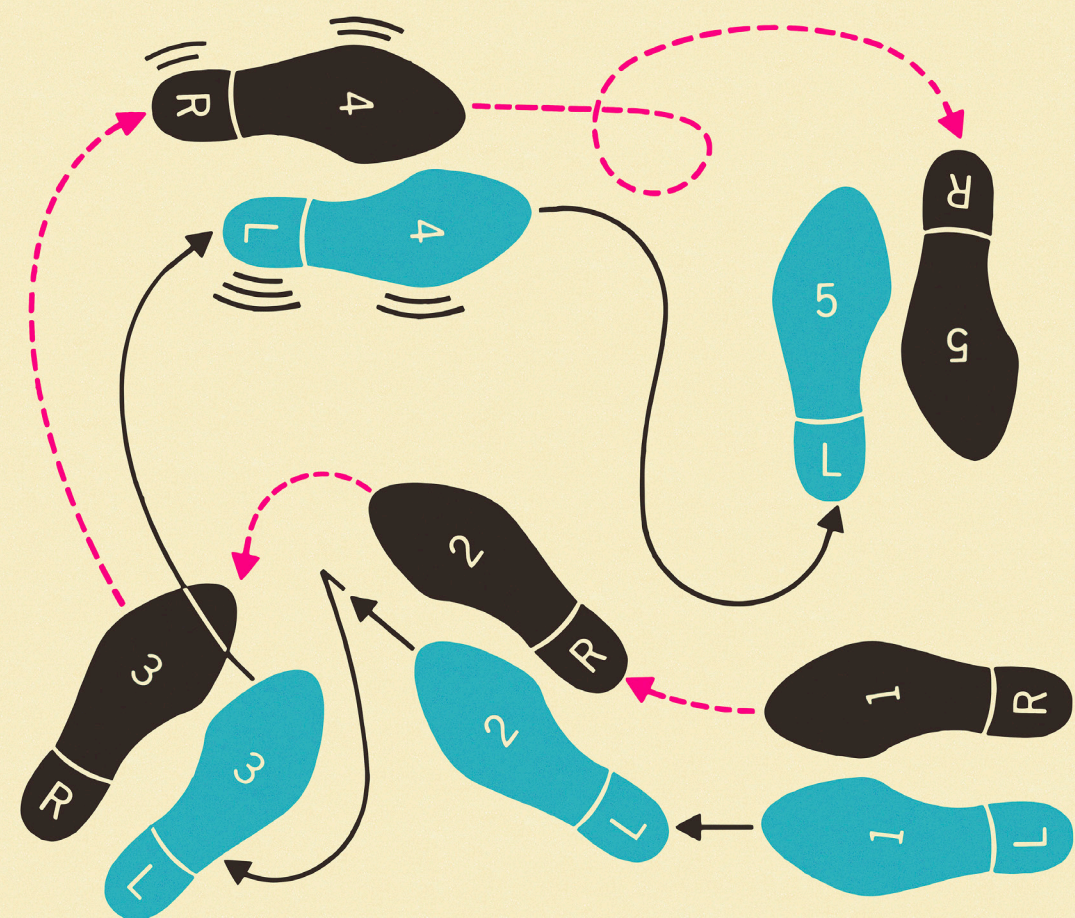
It's only when these three tools are working together that you have a solid picture of whether a business model is right, whether it is viable and able to deliver value to customers and the business over the long term.

Let's step into the ring...



Five steps to surviving the collision

With the above in mind, here are 5 simple steps that we use with our clients to help to understand the potential for disruption to their business model – and where to innovate in response.



1

Plant your feet firmly - recognize the successes within today's business model

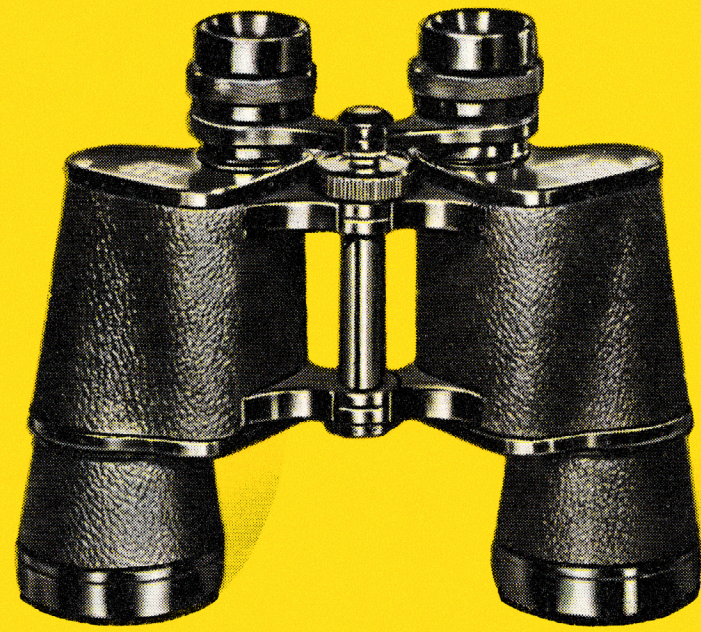
Sometimes the allure of the new can be so dazzling that the temptation is to throw out the old in pursuit of the new.

The key to successful innovation lies in finding your unique strengths, the competitive advantages that brought you this far, the ones that will help you in the future – but also the ones to leave behind.

So take a step back and use the canvas to understand what it was about the current business model that made you successful up to this point.

You're after a clear view on where the effects of the collision will be felt, and thus how you might respond.

The goal here is to narrow the focus for innovation, making smart choices as to what needs to change, and what can remain, to form the foundation of the next business model.



2

Spot the collision - identify the points of change

With a solid understanding of the current model, you can now look for the drivers of change, and how they will affect your business model.

The collision might come from any number different angles, for example:

- Regulatory changes - think about how Euro GDPR legislation is challenging traditional banking relationships, enabling challenger banks such as Monzo to build new business models by upending the customer relationship and channel
- Technology changes which create new capabilities that drive new business models - it was the rise of GPS-enabled smartphones

that enabled Uber to disrupt the channels and supplier partnerships of cab companies

- Changes in consumer behaviour and demand – changing lifestyles have rendered big box supermarkets redundant in favour of home delivery, disrupting their cost structure and key resources.
- Evolution of the buyer – Schneider Electric found that new connected technologies meant that the buyer inside the client business shifted from technology-led to operations-led

Different triggers will require different approaches.

3

Duck, weave then take aim - calibrate the value left in the system versus the need for change



Changing a business model is a huge ask for big businesses operating at scale, it's not something to take lightly. So just as in a title fight where the victor will usually be the one that has dodged the most punches, so the successful businesses are those who make the right strategic choices as to which collisions to take on, which parts of their business model to change and which to hold constant.

A good place to start is with the value proposition – since a business model is simply the structure that enables you to deliver a value proposition at a fidelity that works for the customer and with a margin and growth potential for the business – is it still applicable, or does it need to change?

And if it does need to change, what is the expected cost vs return – it might be that delivering 80% at low cost is preferable to 100% at disruptively high cost.

This is about conserving energy and focusing resources – the smart innovator won't go for change for change's sake, but rather target the minimum required changes to the existing business model, to create the maximum likelihood of future survival and success.

This solid base can give you the required balance and momentum to deliver the knock-out punch of innovation.



LESSON FROM THE REAL WORLD

Get smart to get buy-in from the core business

- Make sure that the business sees that decisions are a two-way street (they can be influenced by both sides) – for Emilie Marneur from Amazon, it's critical to ensure that the team has the permission to pivot on their decisions – to learn from the data and try something else if needed.

- Get the team to self-select – for projects staffed by internal teams, a smart move is to select the team by getting them to volunteer – this creates accountability, ownership and motivation.

4

Deliver the one-two – focusing on the richest areas for innovation

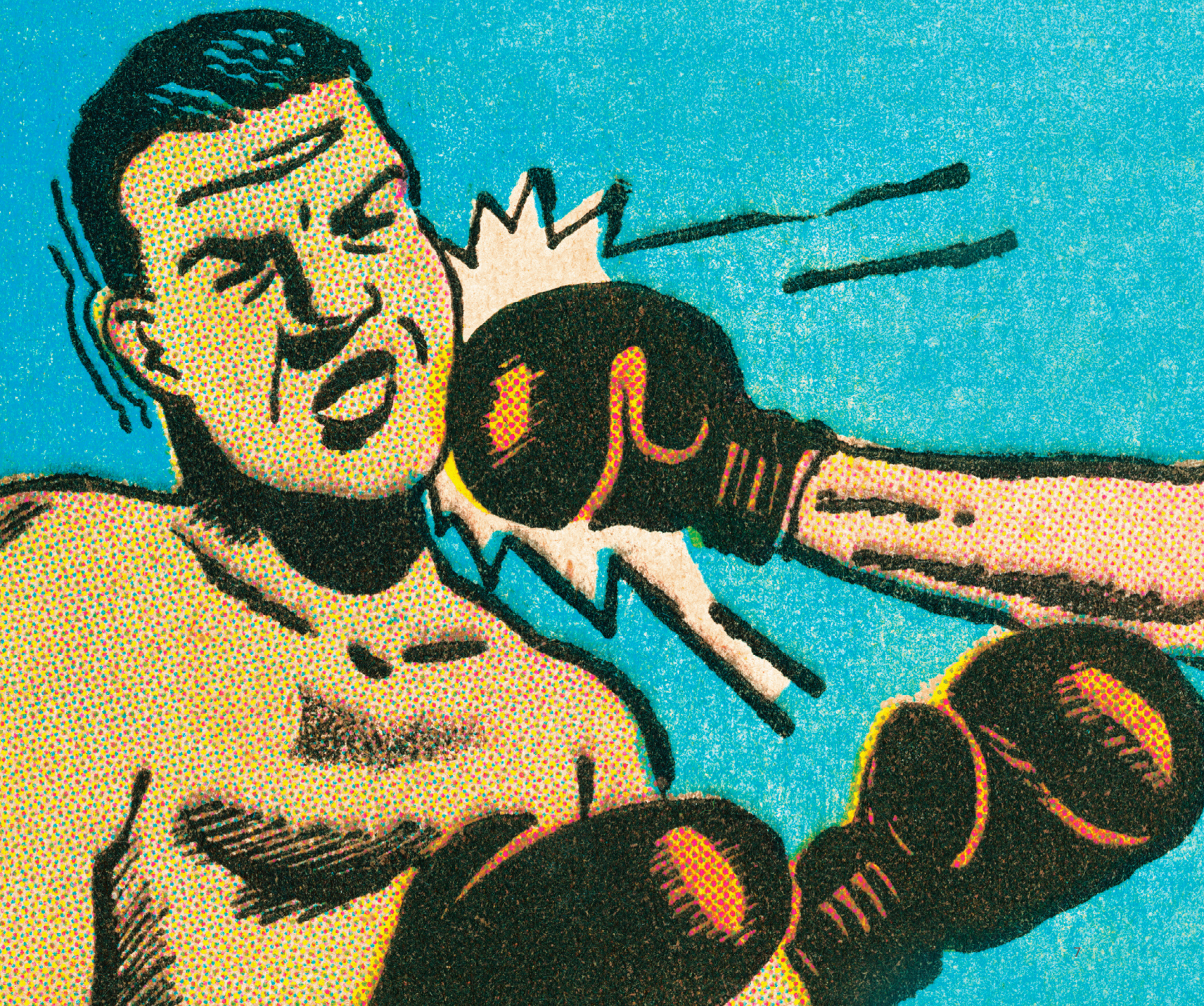
Once you understand the critical points within the business model – the squares on the canvas or the relationships between them, using this as a jumping off point for innovation – developing the hypotheses and ideas that can create the next version of your business model.

For example, when we worked with Diageo to develop My Edition, a direct to consumer business for Johnnie Walker, we focused on innovation within the channel and value proposition, and clear focus on the customer segment – recognizing that the business model could succeed with many of the existing facets of the business held constant, and should also reduce the risk of alienating or cannibalizing its existing business.



“Everyone has a plan until they get punched in the face.”

- MIKE TYSON



5

Roll with the punches - build out the commercials and the story through experimentation

As Mike Tyson famously said, everyone has a plan until they get punched in the face. In innovation terms, it's a call to action – your newly created business model will be loaded with assumptions that will undoubtedly be challenged as you build out a commercial model and start to build out the 'how it works' narrative.

So build it out in the real world by identifying the assumptions that lie behind it and then designing smart, rapid experiments to put those assumptions to the test, iterating the business model as you go until you have a clear answer to the 'how does this work' question, and a believable commercial model of the business operating at cruising speed.



LESSON FROM THE REAL WORLD

Move fast and adopt an experimentation mindset

- Set your default to yes – when you're in an experimentation mindset, the early stages of figuring out your business model can see it killed by risk-averse behaviours, or at least drastically slowed down. As Matthew Addison from Stepladder puts it: *"You need to have a situation where one yes is enough to go ahead, rather than one no being enough to stop you"*
- Use principles, not processes to guide your innovation and growth – as Richard Lewis-Jones from Unilever puts it, principles ensure that you move quickly and are agile – processes make you rigid and slow, they are the behavior of a scale organization



LESSON FROM THE REAL WORLD

Use hacks to successfully scale

- Look for what you can take away and automate, once you have a proven business model, – a classic Amazon approach, this is really about optimising the things that work while you innovate the things that don't

- Scaling doesn't always mean more resources, it's about having the right people and remaining lean – for example Amazon Publishing, published just 50 books in its first year – but created the base for rapid scaling

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Going the distance

While these five steps might sound and feel like a title fight, in truth you're not far out of the training gym – real success can only be judged once the new business model is embedded in the core business and operating at scale, and will hinge on engaging the leadership and empowering the team.

As a start though, they give a solid

framework to look at the core business, anticipate the collision and build out the threats and opportunities posed by disruptive changes in the ecosystem, ensuring that business model innovation becomes not just an exercise in filling in a canvas, but a creative process that is experienced and implemented in the real world, and puts the business on the front foot for future collisions.



Surviving the collision - what it looks like in action

THE GUARDIAN

As an almost 200-year-old publication, The Guardian is a perfect example of a business that has had to adapt to changes in its external environment. Like many traditional print publications, the advent of the internet posed an existential threat to their business model. And yet by recognizing the collision and making the right changes while holding other points constant, the paper moved from recording a £57m loss in 2015-16 to an operating profit of of £800,000 in 2018-19.

Where the disruption came from

- The newspaper relied on a traditional print media model of revenue from cover price + advertising to cover the costs of production and distribution.
- The rise of the internet meant that customers became accustomed to not paying for access to news online, and not buying print editions, while advertisers directed spend online because of the lower cost and higher effectiveness.

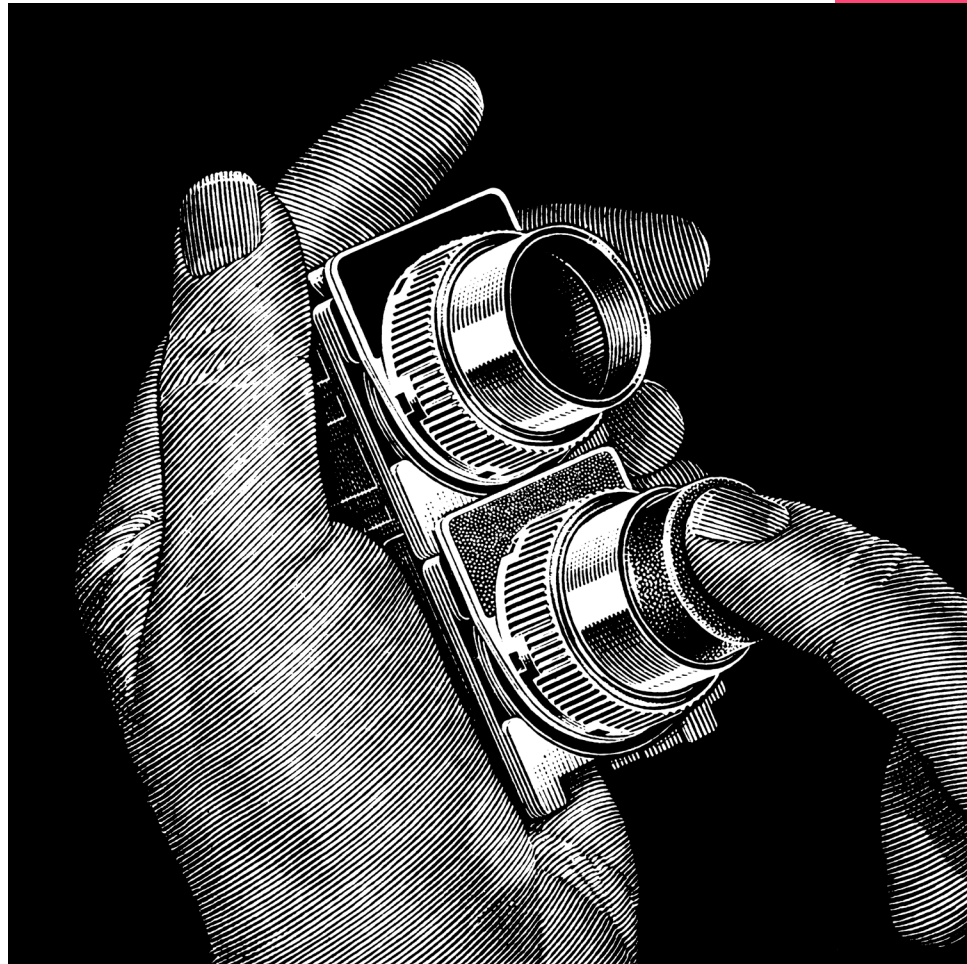
What they changed

- Revenue streams switched to a membership model – the difference between this model and more traditional paywall is arguably part of the success of the adaptation, but also intrinsically linked to their values of openness and access.
- The customer relationship changed, creating a membership system that made customers feel part of the mission of the business, playing a role in sustaining quality journalism, and giving them access to Guardian experts, staffers and experiences.
- This manifested in a value proposition which in some ways is radically different to before – membership offering access to ad-free content, access to experiences and affiliation with a higher order goal.
- It also resulted in a changed cost structure, as the costs of production and distribution dropped away, while investment in digital and community management rose.

What they kept

- Many of their key activities, resources and partners remain the same
- While print circulation has declined, the print newspaper remains
- The crucial elements of their value proposition remained unchanged – by opting for membership over a paywall the Guardian has ensured that it remains a publication that can be freely available to all, creating maximum impact towards the goals at the heart of the publication.

As current Editor-in-chief Katherine Viner puts it: “Our moral conviction rests on a faith that people long to understand the world they're in, and to create a better one. We believe in the value of the public sphere; that there is such a thing as the public interest, and the common good; that we are all of equal worth; that the world should be free and fair.”



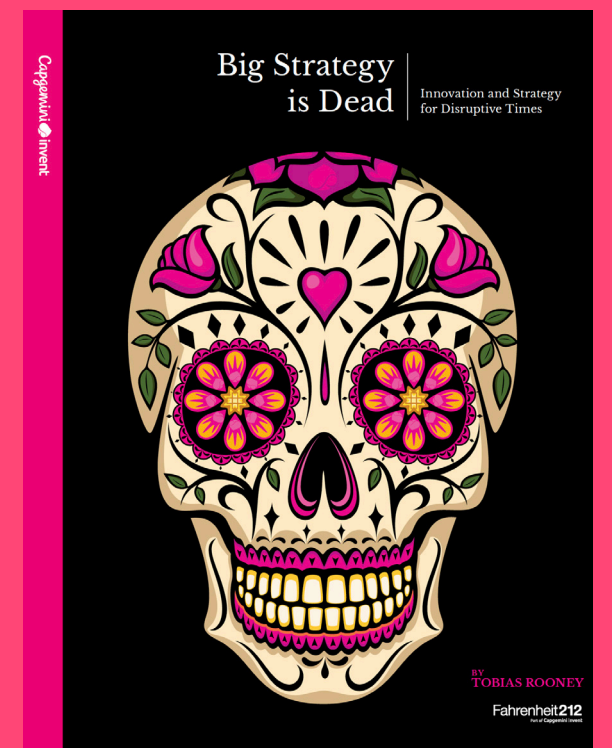
As the frequency of disruptions to legacy business models increases, it's crucial to have an approach to anticipate and capitalize on the changes that the future will bring.

If you're interested in learning how we help our clients innovate their business models using the plays outline above please contact us at:

innovationstrategy.global@capgemini.com

'When Disruption Hits Your Business Model' is the second article in our innovation and strategy thought leadership series. Take a look at our first article: [Big Strategy is Dead](#).

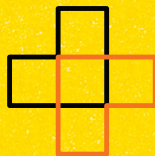
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