

Radical Business Model Transformation

Gaining the competitive edge in a
disruptive world

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The three authors have been driven by the question of how to transform a company's business model into the next one.

From the start of this project, we were clear that we wanted to discuss our ideas extensively with other business leaders and academic experts. In the early days, this took place through ad hoc personal conversations with individuals. As the project progressed, the approach became more structured, including the form of an online community in which we discussed our ideas.

At the same time, we started to apply our framework in executive education courses at the universities and business schools where we are active as senior lecturers – the University of St Gallen, Stanford Graduate School, Mannheim Business School and Karlsruhe Institute of Technology – and also in several in-house training settings. This proved to be an important asset for us. The interactions with business leaders from all sorts of industries and company sizes, often over a course duration of several days, allowed us to discuss our concepts in quite some detail with more than 500 executives to date.

During this time, the idea emerged to further develop and refine our conceptual framework by involving leaders who have themselves experienced a transformation journey. We therefore selected exciting cases from different industries and for different transformation types and invited the relevant executives to write about their stories. Nine months and a large number of conference calls later, we have 11 in-depth case studies, ranging from exponential-growth companies like Netflix to global players like Xerox, SAP and Daimler and mid-sized hidden champions like Knorr-Bremse and Kaba-LEGIC. The unifying element is that all these companies went through or are in the process of completing a major business model transformation. The cases also illustrate in detail what the leaders did to successfully manage the radical shift.

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As the book took shape and word about it began to spread through our teaching and case authors, we were approached by top executives to assist and guide them through their transformation journeys. Based on the tools we developed for these projects, we decided to develop the step-by-step business model transformation manual, which you will find in Chapter 11 of this book.

Our approach to leveraging the wisdom of our crowd paid off tremendously. The feedback and input of so many talented people were instrumental in reaching the framework's maturity level. It also helped us to separate the useful from the superfluous, and thus to distil the core of our thinking. Many of the company examples in this book come from our crowd contributors and help to illustrate and make the content digestible.

Thank you very much for your support!

PREFACE

One key challenge of writing about business model transformation is that the subject is a moving target. Every day there is new information; new articles are published, you hear about new trends and interesting cases, and so on. But one day you must decide to end the writing process, because a pattern has emerged in your mind that covers what you read, see and hear. This took place in June 2016.

Despite the fact that business models attract much interest, some key questions remain unanswered. A particularly important open question is how to systematically change and transform a business model – from today's model into tomorrow's model – to (re)gain competitive advantage. Most companies already act within a given business model and rarely can start completely greenfield again.

In 2013, we decided that we wanted to learn more about how established firms could successfully and dynamically change their business models, and to turn this into a book on business model transformation. We have subsequently studied more than 380 companies or lines of business so as to better understand whether businesses changed their business models, which businesses opted for what kind of model, and how they have adjusted it. We conducted many interviews about companies' choices of business model and their adaptation processes to a changing business environment. The more we deepened our research, the more we discovered that many companies we observed had to master more than simply an incremental change process if they wished to stay ahead of the competition – they had to master deep fundamental change and bring about a radical shift. Thus, in this book, we decided to focus on the challenges of leading such radical business model transformation processes.

Our book addresses the needs of executive-level managers as well as academics with an interest in the subject. The book provides answers to some key questions today's leaders face: What business model choices are there? Where does our firm stand now? Is our current business model sustainable, or do we need to change it? If we need to change, how can we transform our business model? Which options do we have, and what are the specific challenges and requirements of each path? What were the experiences of other firms and leaders on their radical transformation journeys?

By answering these questions, the book delivers three key benefits. First, it helps to provide a systematic and more integrated understanding of the often fuzzy topic of business models and their transformation. Second, it presents practical insights, recommendations and experiences of how to radically shift a business model. In-depth case studies of business leaders who have successfully led such a business model transformation journey help to illustrate the *how*. Third, it provides a proven framework and shared language to involve others in discussing and developing business model transformations.

Writing such a book over several years has been intellectually enriching and fun, as well as highly time-intensive and energy-intensive. Thus, first, we thank our families, specifically our spouses, Yvonne, Isabelle and Sina, for their unconditional support.

We thank our contributing crowd, especially our case study (co-)authors. They helped us to develop and refine our framework, and to fill it with life, through their exciting cases of radical transformation. By sharing their rich practical experience, they have provided us with much detailed knowledge and best practices. We also thank all our colleagues, friends and professional partners for their critical feedback, reflections, comments and suggestions to improve our book.

Our sincere thanks to our publishers, the team at Kogan Page, for their commitment and professional guidance in getting our book to you today.

Carsten Linz
Günter Müller-Stewens
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PART ONE

Why business models need to radically shift

One secret to maintaining a thriving business is recognizing when it needs a fundamental change.

MARK W JOHNSON, CLAYTON M CHRISTENSEN
AND HENNING KAGERMANN¹

Most established companies understand their business model from the inside out. They have continuously fine-tuned their established business model to stay aligned with changes in the environment, but they have not questioned their type of business model. Today, however, sporadic changes and megatrends coming from outside the business, such as digitization and servitization, are putting more and more established business models under pressure. Incremental fine-tuning of the current business model will not suffice. Innovation competition has shifted from technological and process innovation to business model innovation, because start-ups, niche players and small and medium-sized businesses today have the means to challenge established players with relatively limited investment.

For example, it is doubtful whether automotive companies can survive just by producing and selling cars. Some of them fear they will be demoted to being low-margin metal-bashers if they are unable to take advantage of the entertainment and e-commerce services that could be offered on screens inside the car of the future. These 'smart services' are often far removed from the principal use of the product,² requiring an account ID to participate in their monetization and hence would mean a radical shift of an automotive company's business model, including a deep cultural change. Many media companies have already had to undergo reformation. Print and online advertising revenues continue to fall. Content is still king but the new delivery formats are many-fold and journal- and newspaper-based subscription has