

## When should you change your #Business #Model and how?

In the last article I had mentioned the key ingredients that form part of a Business Model. One of the biggest challenges faced by organizations is in identifying when exactly to go ahead with changes in its existing business model besides deciding whether they really need a change in business model.

There are several instances where established large companies have created new products that fundamentally disrupt competitors without changing their business models...

There have been several examples in the FMCG sector where new innovative disruptive products were introduced by Unilever and P&G without making any business model changes. Some of the best examples are that of the creation of the shampoo sachet. Though this was pioneered by Cavin Kare in rural Tamil Nadu which led to huge increase in shampoo sales, Unilever has since taken up this most effectively selling more than 27 billion sachets a year in India and has implemented the same across most developing countries like Pakistan, Thailand etc. They have also implemented the same in other product categories like deodorants, ketchups etc.

### So, when do you change your Business Model?

Some of the situations which require business model changes are as below

1. Situations where large groups of potential consumers are shut out of a market entirely because existing solutions are too expensive or complicated for them. **If these consumers are being addressed by an entirely new type of technology a new business model is certainly required.** If the potential consumers are being addressed by means of innovative solutions like the shampoo sachet examples shown earlier such situations will not require business model changes.
2. **The opportunity to capitalize a new technology by wrapping a new business model around it.** The best example for the same is the Apple iPod. While the technology was already available and in fact was pioneered by a Diamond Multimedia in 1998 and another company called Best Data in 2000 the products introduced by them weren't successful in the market. Both the companies had the snazzy design, it was portable and stylish, however what ensured the success of I pod was the way they created a new business model combining hardware which was the I pod, software which was the I tunes and services which was the ease of downloading music...In such kind of innovative products a new business model will be required.
3. **The opportunity to use an existing technology in a different space.** Like using technology presently being used for military purposes for commercial products...One opportunity that is coming up is the usage for satellites in low earth orbit for providing broadband signals. Though this technology was available and was already being used for military purposes using this for end consumers will require companies which are even providing mobile broadband to adopt a different business model for the same.
4. **The opportunity to bring jobs to be done in organizations or industries where the same does not exist.** In several industries companies focus on products or consumer segments which leads them to refine existing products more and more, increasing commoditization over time. In such a scenario **a jobs-to-be-done approach will help redefine industry profitability**...A good example which comes to mind is the strategy adopted by FedEx while

entering the packaged delivery market. Instead of just competing on pricing it concentrated on fulfilling an entirely unmet consumer requirement of receiving packages faster and far more reliably than was presently being provided by any of the players. FedEx had to alter its key process and resource allocation in a more efficient way and created a new business model which gave it a huge advantage over UPS as it took UPS several years to catch up with FedEx.

5. **The need to fend off low end disrupters or new competitors offering better value or more services at a lower price.** The best recent example that comes to mind is how xiaomi was able to take market leadership in the mobile handset market. Existing market leaders like Samsung had to remodel their business model particularly in the online sales segment to stay relevant in the market. An example of an earlier era would be how mini steel mills took away business from integrated steel mills by making steel at significantly lower cost.
6. **The need to respond to market dynamics which change over time.** A good example of such a situation is how Hilti shifted from a sales related model to a subscription based model for its power tools and the changes that it had to incorporate to get the subscription model effective.

Established companies attempts at transformational growth usually comes from product or technology innovations. Their efforts are often characterized by prolonged business cycles and attempts to find a suitable market.

As per data available organizations particularly new ones needs to modify their business models at least four times before their reach a profitability. Hence organizations will have to be patient and willing to make these course corrections by focusing equally on learning and correcting as well as executing. Organizations should only pursue new business models only when the opportunity is large enough. It is also not required to totally discard the existing business models which can continue to work effectively for the existing categories and segments.

**To conclude some of the key questions which needs to be positively answered to identify if there is a real need for a new business model are as below:**

1. Can the job to be done be executed with a compelling and focused customer value proposition
2. Is the model devised working efficiently with all the 4 key elements of a successful business model namely customer value proposition, profit formula, key resources, and key processes?
3. Can a new development process be created without being affected by the existing influence of the core business?
4. Will the new business model disrupt competitors?

If the answers to all the above questions are in the affirmative, then don't waste more time...it's the right time to establish the proposed new business model...

Keep watching this space for more....

