PURSUING BUSINESS MODELS OUTSIDE-THE-CORE: LESSONS LEARNED FROM SIX IN-DEPTH CASE STUDIES (INTERACTIVE PAPER)

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Principal Topic

Odds of success drop to as low as 10 percent when companies try to develop new products significantly beyond their core, i.e. where there are changes in the business model required such as a new supply chain or a new customer (Edwards, 2012:34). Nevertheless, as Apple's exponential growth rates since 2005 exemplify, the results of successful outside-the-core projects (e.g., iPhone) can be disproportional. This research looks at paired case studies of successful and unsuccessful outside-the-core project in large companies. Our research question is: Which factors determine success or failure when companies venture into outside-the-core businesses for which a new business model is required?

Methods

The literature on business models has confused academicians and practitioners alike. A recent book on business models referenced the definitions of “business model” used in 17 different academic and practitioner articles and showed there was little overlap or common understanding of what constitutes a business model (Wirtz, 2011). Recent work by Osterwalder and Pigneur (2010) introduced the “business model canvas.” We used this tool to evaluate the change required using the established business model as the baseline for six outside-the-core projects, based on detailed written case studies for all six projects.

Results and Implications

We found that success or failure was not simply related to size of the departure required from the firm’s established business model. All of the projects took the companies into new markets which required a new value proposition. The companies we studied spent considerable resources in understanding their new customers and the value proposition for the new customer. However, projects that failed had a higher number of false assumptions when compared to the successful projects. A false assumption is made when a company believes that only a small change is required for the respective element from the current business model, when it later turns out that a large change is necessary. The false assumptions that led to failure were seen in the distribution channels, cost structure and velocity parts of the business model canvas, which are typically not given high levels of scrutiny when initially evaluating a new growth opportunity.

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