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Business Models: A Discovery Driven Approach

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The business model concept offers strategists a fresh way to consider their options in uncertain, fast-moving and unpredictable environments. In contrast to conventional assumptions, recognizing that more new business models are both feasible and actionable than ever before is creating unprecedented opportunities for today's organizations. However, unlike conventional strategies that emphasize analysis, strategies that aim to discover and exploit new models must engage in significant experimentation and learning — a 'discovery driven,' rather than analytical approach.

In highly uncertain, complex and fast-moving environments, strategies are about insight, rapid experimentation and evolutionary learning as much as the traditional skills of planning and rock-ribbed execution.

Introduction: the appeal of the business model construct

The Business Model has evolved as a popular term, and as a focal concept for strategy. Key drivers have been the emergence of the commercial Internet, enabling ubiquitous communications and increasingly cheap ways to convey vastly more rich amounts of information, and making it possible for businesses to do things they simply never could before. '*Conventional rules tie us down?*' the dot-com entrepreneurs seemed to trumpet, '*no way — we have a superior business model!*' Of course, as became rather evident rather quickly, old-fashioned ideas like having profits — or failing profits, even revenues - continue to matter. Nonetheless, the idea that a company can create a competitive advantage by doing something differently — adopting a new business model - has remained with us. Some observers have gone so far as to suggest that a business model offers a new way of analyzing companies that is superior to traditional concepts such as position within an industry.[1] It is worth, therefore, reflecting a bit on where the concept might take us and what we might expect from business models in the future.

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The concept of 'the business model' is appealing because it suggests a change to the way that strategies are conceived, created and executed against. In highly uncertain, complex and fast-moving environments, strategies are as much about insight, rapid experimentation and evolutionary learning as they are about the traditional skills of planning and rock-ribbed execution. Modeling, therefore, is a useful approach to figuring out a strategy, as it suggests experimentation, prototyping and a job that is never quite finished.

Business model analysis also gives us a sense of firms in action. But this dynamic perspective is not central to two ideas about the genesis of competitive advantage that are well-accepted in strategy: the industry positioning view or the so-called resource-based or dynamic capability view. The positioning school has long proposed that what firms need to do to succeed is to find a truly differentiated and defensible position within an industry and execute relentlessly against that position. The capability school argues instead that advantage stems from having difficult-to-copy resources that are often built up over long periods of time. The dilemma is that neither of these perspectives give management much latitude for action. Having selected a position in an industry, it is hard to pluck a firm out and move it to some other position; similarly, after a firm has spent time and effort assembling a compelling resource endowment, order of magnitude shifts are quite difficult. But making business model decisions *does* fall into the realm of managerial choice, and is therefore exceptionally useful to inform managerial decision-making.

For instance, when Mark Hurd joined Hewlett Packard, he took the helm of a firm whose positional advantages (particularly in the computer hardware business) were under significant threat. Michael Porter's five-forces of industry analysis was increasingly negative for HP: it had few barriers to entry, substitutes for its products abounded, buyers and suppliers retained significant power and industry rivalry was brutal. Similarly, the value of its resources, relative to its competition, was proving insufficiently valuable to drive sustained differentiation. Hurd initiated a series of initiatives to move the company's core business toward a different business model than it had pursued up to that point. In the consumer-facing PC business, for example, HP matched competitors such as Dell on operational efficiency, but added a strong retail presence to the personal computer business. On the corporate side, he shifted HP toward more of an integrated solutions and services model than it had previously adopted, culminating most recently in its decision to acquire the consulting and outsourcing firm EDS to fill out its capabilities to support client corporations' needs more comprehensively. These were not positional moves (although they had positional consequences), nor were they strictly speaking resource moves (although, likewise, they had resource accumulation and dispersion consequences): rather, they were decisions intended to align the firm around a new set of business models.

For academics or executives trying to make sense of why some firms do better than others, and how firms might themselves benefit from such understanding, the business model concept offers four ideas that are either new, or that have not figured substantively in considerations of strategy formulation historically.

- First, it promotes an outside-in, rather than an inside-out, focus. For some time, managers have been advised to get to know their 'core competences' - those activities at which their firms excel - and find market opportunities to deploy them. The dilemma is that such analyses are often carried out with an internal focus. Focusing on business models shifts re-invigorates a view of firms as continually engaged with - and adapting to - changing customer values. Clearly, business models that don't create value for customers don't create value for the firms that seek to serve those customers either;
- Second, business models often cannot be fully anticipated in advance. Rather, they must be learned over time, which emphasizes the centrality of experimentation in the discovery and development of new business models;
- Third is a new appreciation of the dynamism of competitive advantages. Conventionally, the Holy Grail in strategy has been the creation of a 'sustainable' competitive advantage. In more and more categories, however, we see firms competing to achieve what we might think of as