KANTAR FUTURES

BUSINESS MODEL INNOVA-TION

FINDING GROWTH IN AN UNCERTAIN WORLD

Future Perspectives are thought pieces with concise, focused insights into important issues of interest to marketing and business strategists.

Image source: Death to Stock

BUSINESS MODEL INNOVATION

One of the dirty secrets of business is that most companies grow at around the overall speed of the economies in which they operate. As we see slower growth across most of the world economy, business growth slows too.

This creates a fundamental challenge for businesses if they want to maintain their rate of return on investment and avoid pressure from shareholders or investors. It requires them to think about the whole business as an engine for growth as they look for ways to create demand. But innovation systems are breaking down, caught between slowing growth on the one hand, and the rising costs of complexity on the other.

At one end of the spectrum, data from Kantar Worldpanel suggests that the returns on incremental innovation are falling to the point where it is no longer effective. Erixon and Weigel, in their book *The Innovation Illusion*, suggest that much innovation is more "fun than fundamental."

At the other end, a new paper suggests that a breakthrough research idea takes more researchers and more research time than ever, and that this cost is increasing. Taken together, these trends might be the reason why some companies are investing less in research and development that they used to. As the website Food Tech Connect reported recently, US packaged goods companies invested 1.5% on revenues on R&D in 2014, lower than every other sector save chemicals and energy. This might be a rational response to slowing returns on innovation. But it only works for a while.

Business model innovation is back on the agenda.

One reason for this is the traditional solutions that businesses have deployed to gain growth are not as effective as they used to be.

- Stealing share through increased advertising and marketing spend tends to be short-lived.
- Buying share through mergers and acquisitions is known to be unreliable and has less effect as industries become more concentrated.
- Cutting prices hits margins.
- Incremental innovation has less effect.

One symptom of these issues has been the emergence both of activist investors and the business approach of the Brazilian conglomerate 3G Capital, which owns InBev, Kraft Heinz, and Burger King, with its tight, even obsessive focus on cost control. So far the evidence suggests that this boosts profits but doesn't create business growth.

The innovation challenge is that as categories mature, they become "good enough," from the consumer point of view. This means that in turn the added cost of greater functionality or more attributes outweigh the benefits. The investment cost of delivering the innovation starts to rise, which reduces the return on innovation. Without decent returns, investor capital moves on to look for the next big thing.

The same thing is happening now in the ICT sector, where penetration figures indicate a mature market, almost everywhere, replacement rates are falling, and products are being commoditized. Companies such as Apple are sitting on cash rather than investing in innovation; Google is increasingly investing outside of the sector.

There are two stages to finding sustainable growth. The first is that you need to identify the new pools of value; even in a slower growth world, there are peaks caused by changes in the overall social and economic environment. The second is to capture a share of that value, through business innovation. Hanging over both of these are questions of scale and of timing: is the opportunity going to be big enough? And if it is, when is it gong to be big enough?

These are themes that Kantar Futures has been working on in its own research over the past few years. Our recent report, *Defying Gravity,* is about why growth is slowing, and the impact that has on markets. This built on our earlier piece of work, *Unlocking New Sources of Growth,* which described how and where new value pools formed, and *The 21st Century Business,* co-written with Jules Peck, which described the type of business that would be agile

NEW POOLS OF VALUE

enough to respond to change in the new business environments of the 21st century.

Our research in *Unlocking New Sources of Growth* identified four pools of new value that companies could look at, summarised in the acronym MVMT.

The first was "Markets"; money moving between countries as some got relatively richer. China, for example. The second was "Values"; shifts in social values and attitudes, which then lead to shifts in buying patterns. An example: shifting demand within the beauty sector, driven by women's changing ideas about image. The third was "Money," in which money moves between economic and demographic groups within markets. An example: the squeeze on the earnings of millennials while boomers prosper. And the fourth, obviously, is "Technology," where changing technologies change spending patterns and also create whole new categories. An example: the way in which Google has become the most valuable advertising platform in the world.

But it is not just about money: timing is also important.

The shifts in value identified through the MVMT lens tend to sit on generational rates of change, creating platforms for innovation, rather then corresponding to business innovation cycles. But the second order changes (for example the shift to nail beauty, or the emergence of apps, or the arrival on the global travel market of significant numbers of Chinese tourists) do happen at the speed of one or two innovation cycles.

There are clues to be found, as well, as to whether a market is close to take-off, which we spelled out in our Pressure Gauge model in the *New Sources of Growth* report. In other words, business model innovation is not a matter of being lucky enough to stumble over a nugget of gold on the beach: it should be part of a structured innovation process.

THE INNOVATION CHALLENGE IS THAT WHEN CATEGORIES MATURE, THEY BECOME "GOOD ENOUGH" FROM A CONSUMER PERSPECTIVE

THINKING ABOUT BUSINESS MODELS

The notion of the business model is a function of the era of computers and spreadsheets, which made it possible to test business assumptions on the computer screen. But this is a cold-blooded way of looking at it. For a business model is more than a spreadsheet. It is also a story about the business, about how an organisation delivers goods or services to its customers, linking how these are made with how they are sold.

For a commercial business, it also tells the story of how it makes money. Every successful company is built on "a theory of the business" which connects markets, consumers, capabilities and technology together in a story about how the business works—and every theory of the business becomes obsolete. The idea of the business model comes from the management academic Peter Drucker, although he didn't use the phrase himself.

Drucker argued that every successful company is built on "a theory of the business" which connects markets, consumers, capabilities and technology together in a way of doing business effectively.

Every very theory of the business becomes obsolete, but there are always signs that your theory of the business may be heading for trouble.

- Next generation innovation offers smaller and smaller improvements.
- Customers find alternatives increasingly acceptable.
- An unexpected failure.
- An unexpected success.

Existing leaders are not always well-placed to transform a business model, since they have grown up with the existing version. There are exceptions: Andy Grove and Gordon Moore at Intel, for example, or Andrea Jung at Avon, or, more recently, Satya Nadella at Microsoft. The story about Grove and

Moore is that when Intel was facing a crisis, they chatted about what the next CEO would do after they had been fired. Then they decided to come in the following week and start doing it themselves.

The history of the passenger airline over the past 50 years is a cautionary tale about the limits of innovation. In the '60s, almost everyone believed that the future of aviation was about supersonic travel; so much so that the team of Boeing engineers that designed the 747 was the 'B-team'. In the event the only supersonic airlines that saw commercial service were Concorde and the Russian Tupolev TU-44. From a passenger perspective, the time savings offered by supersonic flight did not outweigh the increased cost. The industry had innovated beyond the needs of the market. The flight time on most medium and long haul routes in 2017 is about the same as it was in the 1970s, sometimes slower. Competition in the sector is now focussed on service.

Designed by the B-team: the prototype of the Boeing 747, City of Everett, at the Museum if Flight in Seattle. (Image by Shannonlucas via Wikimedia Commons, CC BY-SA 3.0.)

*"IF I WAS A MANUFACTURER,
I WOULD HAVE DONE IT DIFFERENTLY,
I WOULD HAVE USED FRUIT
CONCENTRATE, NOT JUST SQUEEZED
FRUIT; I WOULD HAVE ADDED SUGAR;
IF I WORKED IN LOGISTICS,
I WOULD HAVE DONE IT DIFFERENTLY;
I WOULD HAVE ADDED PRESERVATIVES;
IF IT WAS DONE ANOTHER WAY,
IT WOULDN'T BE THE SAME THING."*

*RICHARD REED,
FOUNDER, INNOCENT,
TALKING TO US IN 2005.*

TYPES OF BUSINESS MODEL INNOVATION

Through an extensive review and analysis of different types of business models, and of business model innovation, Kantar Futures has identified that, at heart, there are four main archetypes of business model innovation. These are:

EXTRACTING:

what can be removed?

BUNDLING:

what else can be wrapped into the product or service?

UPSERVING:

what would make the experience richer?

MARKET-MAKING:

how can we better connect buyers and sellers?

Each of these four should have the effect of creating better customer relationships and increasing customer value. In a world where the impact of brands on value appears to be declining, and the value of customer relationships is increasing, this is a significant benefit.

Extracting includes moving from consumption to flow, which simplifies the consumer experience by auto-top up); acceleration (e.g. extracting time, as in low-cost airlines and turnaround times); and reduction, what can be taken out. This might involve removing preservatives, for example, or, as with the supermarket groups Aldi or Mercadona, reducing choice in low interest categories.

The core questions to be asked about Extracting are, "What can I remove or simplify?" Sitting behind that is a question about the relationship of your product or service to your customers' time or energy, and behind that a third question about what it is in your product or service your customers really value.

EXTRACTIN

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Bundling covers changes such as product to service (such as Zipcar or Spotify), from product to experience (music value has moved from hard-format to events) and from loose to packaged (e.g., from coffee beans to Nespresso.)

The questions that sit behind this are about the core benefit that the product or service provides, whether this benefit is better served through a continuing relationship, and whether this also allows you to change the cost structure for the customer in a way that helps both them and you. Zipcar, for example, bundles the costs of insurance across its complete customer base, which is a benefit for young urbanites for whole insurance is typically expensive.

BUNDLIN

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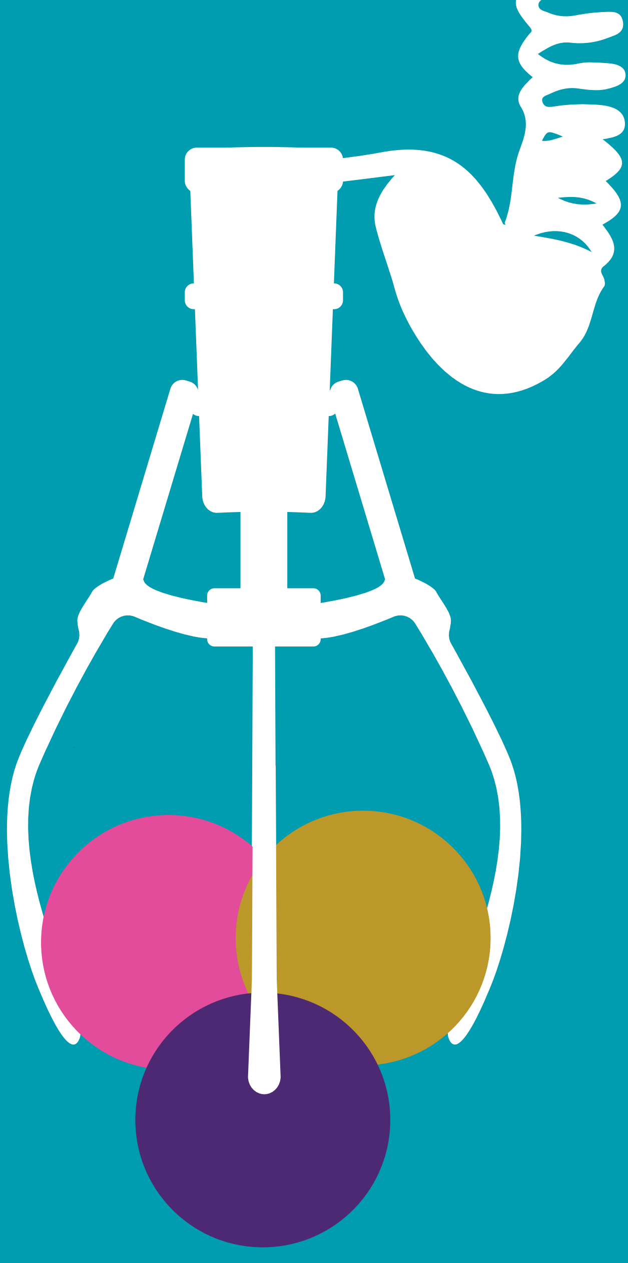

Upserving is about increasing the perceived value of the product or service. This can be through personalisation or customisation, from providing to premium customers benefits associated with the luxury market, or providing aspects of a product or service typically associated with professional users.

One of the core features of upserving is about tailoring or customising an offer, which the customer can experience as a move for them into a premium category. Upserving often benefits from social trends which are about the emergence of amateur enthusiasts or connoisseurs around a product or service that has hitherto been the preserve of the business to business sector. (Think of the way in which top-end kitchen equipment has migrated into the business-to-consumer area). Visual cues can be important; an "upserved" product or service often draws on cultural signs from the leading edge for packaging and presentation.

UPSERVIN

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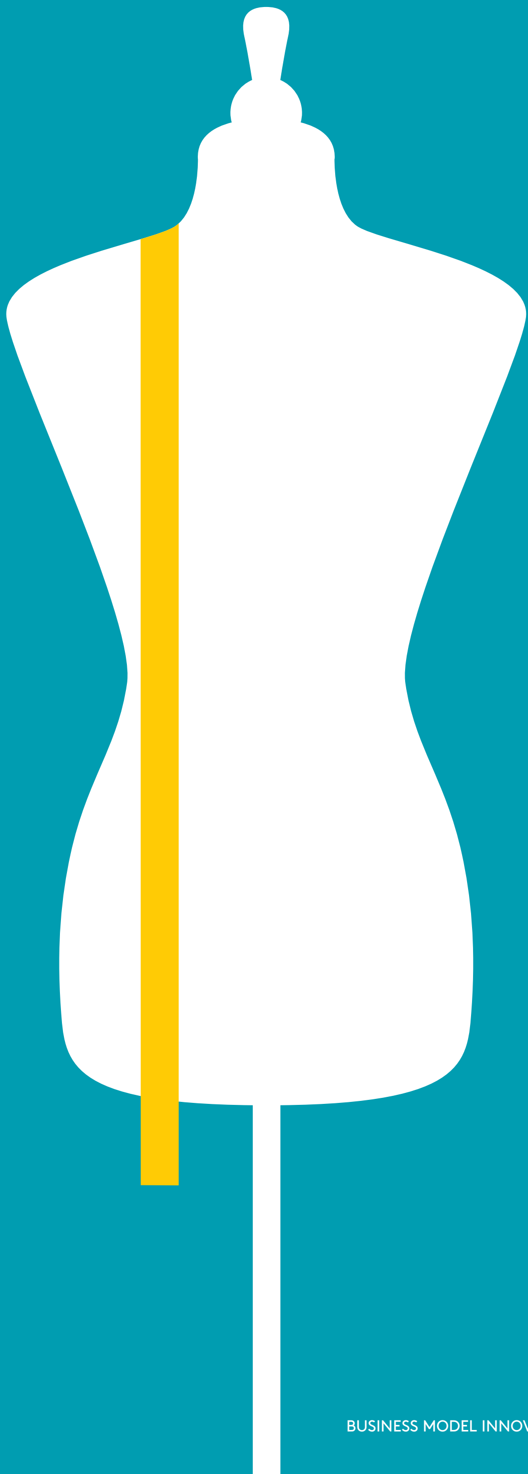

Market making includes aggregating, to create network effects; utilising spare capacity, as in Airbnb, lastminute.com, or Stubhub; or trading up, as in a so-called "freemium" model. It is not a purely digital model: farmers' markets also make markets. But typically these are all two-sided markets, where a buyer and seller are brought together around a platform, and the platform owner takes a margin for access.

The underlying question is about whether a new market will produce a different benefits proposition for both buyers and sellers, and if so, how issues of access and payment are resolved (and whether the margins for access and payment seem fair to all parties.) From a business model, scaling is normally an essential element for success, especially in digital markets, as is clarity about the benefits that customers will pay for.

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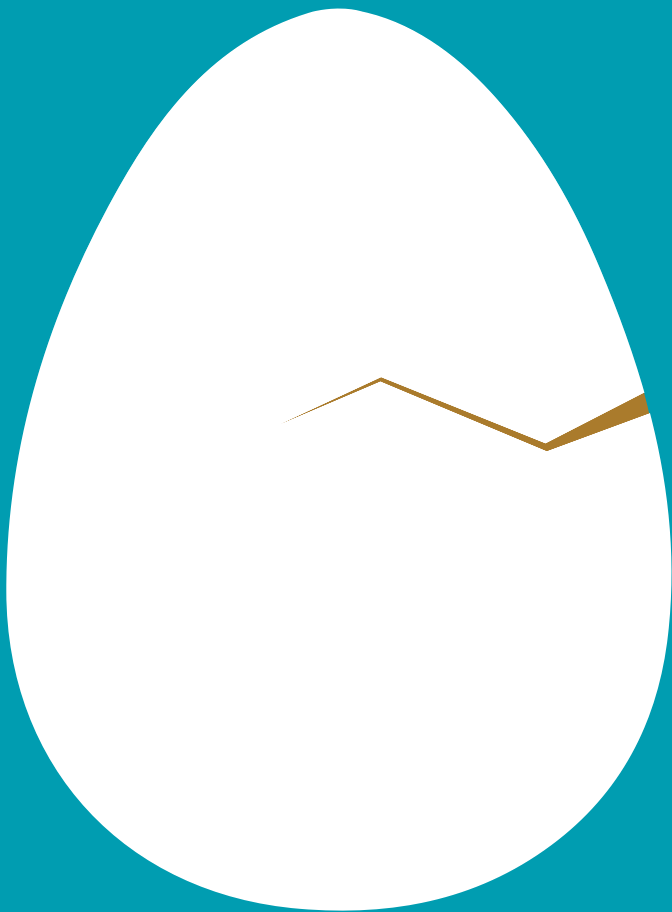

INNOVATING ACROSS THE VALUE CHAIN

Successful business model innovation usually requires innovation in several places across the value chain at the same time. To take the familiar example of Uber, for example, it is riding a wider shift in the car market from product to service. It has innovated at the back end to remove from the process cash payment, a classic customer pain point. Personalised messages about the car and the driver increase the customer's perceived security. It bundles data around its service for the benefit of the customer. And so on. Even if the underlying business model looks fragile and the culture questionable, is impressive.

Nonetheless, business model innovation is a tough proposition, and often perceived as being easier for disruptors than for incumbents.

There are familiar challenges for larger businesses about how to scale and how to preserve existing value streams while also innovating about new ones.

But if the challenges of business model innovation are familiar, they also tend to obscure the advantages of business model innovation.

The first is that when a new business model sticks it is associated with higher levels of returns, perhaps because managers in such businesses are tuned differently to opportunities.

The second is that it often involves changes in processes that are hard to spot from outside or to reverse engineer. As the researchers Karan Girotra and Serguei Netessine observe, "Business model innovation ... is about delivering existing products that are produced by existing technologies to existing markets. And because it often involves changes invisible to the outside world, it can bring advantages that are hard to copy."

The third is that they have the potential to scale. They are a type of innovation where larger businesses have advantages in competing with smaller, more agile firms.

EXTRACTING	BUNDLING	UPSERVING	MARKET-MAKING
From consumption to flow	From product to service	Personalisation/ tailoring	Aggregating
Acceleration	From product to experience	Luxury to premium	Utilising spare capacity
Reduction	From loose to packaged	Professional to consumer	Trading up

EXHIBIT 1
Each of the four business model archetypes has sub-types of innovation sitting beneath it. Source: Kantar Futures

Perhaps for all of these reasons, research done by IBM with global CEOs found that "Companies that put more emphasis on business model innovation experienced significantly better operating margin growth (over a five-year period) than their peers." In a world of slowing growth, business models are not something that businesses can afford to take for granted any more.

Making this work, of course, still remains challenging. It needs businesses to: first, connect what's happening in their wider business environment to their capabilities; second, to identify the opportunities that represent distinctive opportunities; third, to offer a strategic window for the company; and then to execute operationally to deliver the benefits. We discuss this in the final section of this Future Perspective..

BUSINESS MODEL INNOVATION IN PRACTICE

The acquisition in 2016 by Unilever of Dollar Shave Club tells an important story about business model disruption in the FMCG (packaged goods) sector, and the story is this: that the strengths that packaged companies believe they have may not be as effective as they used to be at protecting them from competitors with different business models.

The company that was being disrupted by the acquisition was not any old company, but Procter and Gamble, which has written many of the category rules for the packaged goods sector over the years. Its revenues have doubled decade on decade since 1950. P&G owns Gillette, which it acquired in 2005 for $57 billion, when Gillette had 60% of the American razor market by value.

Unilever, in contrast has spent $1 billion on a company which holds 16% of the US market by volume, quite a lot less by value. But however you do the arithmetic, this represents a huge loss in category value. It is disruption on a large scale.

The history of Dollar Shave Club is increasingly well known, but not to everyone. The company was set up in 2011 by Michael Dubin and Mark Levine, and has been backed by a number of venture capitalists. It launched in 2012 with a You Tube video (see below) that crashed the company's server. It offers customers a choice of three monthly plans, and had two million members as of mid-2015. Unilever acquired it in July 2016.

When you compare the Unilever acquisition of Dollar Share Club with P&G's acquisition of Gillette, some important themes emerge. The classic strengths of the packaged goods businesses are their marketing and advertising skills, their distribution channels, their relationships with retailers, and their ability to innovate in the category. One can see all of these strengths in the Gillette business. But Dollar Shave Club turned them on their head.

All of the clues are in that viral video that launched the business 23 million views ago. The way in which it disrupted the shaving market drew on several of our business model innovation archetypes, described earlier, combining them into a new proposition.

It's worth replaying the video to see the clues. It features the Dollar Shave Club co-founder, Michael Dubin, who had some experience in improv and standup. And it's worth reflecting on the way that each of these carefully crafted script lines deconstructs the Gillette business model, as shown in Exhibit 2.

DOLLAR SHAVE CLUB	*AND HOW IT TARGETED GILLETTE*
"Each razor has stainless steel blades, an aloe vera strip, and a pivot head. It's so gentle a toddler could use it."	***You don't need on over-specced product. It's only shaving.***
"Do you like spending $20 a month on brand name blades? $19 goes to Roger Federer.	***You're paying a lot for their marketing.***
"Do you think your razor needs a vibrating handle, a flashlight, a back scratcher and 10 blades? ... Stop paying for shave tech you don't need.	***Gillette spent $750m developing a five blade razor.***
Stop forgetting to buy your blades each month. Alejandro and I are going to ship them right to you.	***Buying razors in a US supermarket is a grim experience, waiting for a sales assistant to unlock the display cabinet.***

EXHIBIT 2
Challenging the mainstream model. Source: Dollar Shave Club/Kantar Futures

In her book, *The End of Competitive Advantage*, Rita Gunther McGrath writes of how new competitors can mobilise assets and resources by leasing them, and part of the Dollar Shave Club story is about this more flexible (or "transient") approach to building businesses.

To summarise:

- It used digital channels like You Tube to get its message out, cutting out spend on television advertising, and online to register new customers

- It accessed "good enough" razor blades to service the market—although its top end "Executive" membership category, at $9 a month, offers a six-blade razor

- It used the mail to send the products out—a traditional approach that would have been familiar to Sears a hundred years ago.

Ben Thompson has a fuller account of this at his Stratechery blog. But Dollar Shave Club it isn't quite the transient competitor of McGrath's account. First, the company used story and tone effectively to differentiate itself, and apparently one of the earliest hires was a top quality writer. In the 21st century, this is still hard to replicate. Second, its customer database is now hard to copy. And, third, critically, its direct-to-customer relationship expertise is said to have been one of the attractions for Unilever. Certainly, Gillette's faltering attempts to launch its own direct service suggests that building customer relationships by selling direct is harder than it looks.

LEARNING FROM DOLLAR SHAVE CLUB

The first thing, which bears repeating, is that successful business model innovation combines multiple types of innovation. Dollar Shave Club's remaking of the US razor market involves extracting (research costs), bundling (we send it to you) and upserving, notably in the packaging.

The second is that its challenge to Gillette and to P&G operates by rethinking the whole proposition all along the value chain. It's not just about customer experience and touchpoints, although these matter. In thinking about business model innovation, the whole business process needs to be scrutinised.

The third is that there is more of a role for marketers than ever. Business model innovation involves telling consumers a new story about how a product or service is being delivered, and why this represents a benefit. In the case of Zipcar, for example, the classic "bundling" proposition, it's about the journey, not the car. In the case of Aldi or Mercadona, who have reconfigured the supermarket business by "extracting", by reducing certain types of choice, it's about explaining why that is a good thing.

In doing this, the innovator is often combining a new way of thinking about the category with a new story about it, while also removing some familiar pain points. In telling this story, the business is surfing transitions in consumer values, running ahead of the wave rather than behind it. Aligning proposition, positioning and purpose is critical.

THE INNOVATOR COMBINES A NEW WAY OF THINKING ABOUT THE CATEGORY WITH A NEW STORY ABOUT IT

"CONVENTIONAL IDEAS ABOUT WHAT CREATES A LONG-LIVED ADVANTAGE WILL CHANGE. COMPANIES ARE LEARNING TO LEVERAGE MORE EPHEMERAL THINGS SUCH AS DEEP CUSTOMER RELATIONSHIPS AND THE ABILITY TO DESIGN IRREPLACEABLE EXPERIENCES."

RITA GUNTHER MCGRATH

BUILDING A NEW BUSINESS MODEL

Growth is always more of a challenge for incumbents than for start-ups and new entrants. Simple arithmetic tells us that the larger the share of a total market a company owns, the more difficult it is to outperform the market as a whole. Size means that innovation has to generate significant revenues even to be noticed on the P&L. If you already have scale, the bar for success is set far higher. This is missed in much of the innovation literature, which tends to focus on start-ups rather than the challenges of driving innovation at scale.

But in a world of slowing growth, effective innovation is needed more than ever. Business model innovation is a way to match scale and innovation. It should allow you to re-align your product or service offering with changes in customer behaviour, attitudes and values, and therefore also with what customers value.

This involves understanding the wider sources of change affecting your business environment, taking a deeper look at the needs of your customers, and taking a fresh look at your capabilities and gaps.

INNOVATING AT SCALE

Attempts at business model innovation often fail, although this is not for lack of trying. According to a 2014 Boston Consulting Group survey, 94% of senior executives stated that their companies had attempted some degree of business model innovation. In 2015, PwC found that more than half of CEOs said they had either begun to compete in non-traditional markets or had considered so doing.

Most structured approaches to business model innovation either look at how to change the business' current operating space, or to reframe the way the business thinks about its evolution over time.
Our learning is that you have to do both, in parallel.

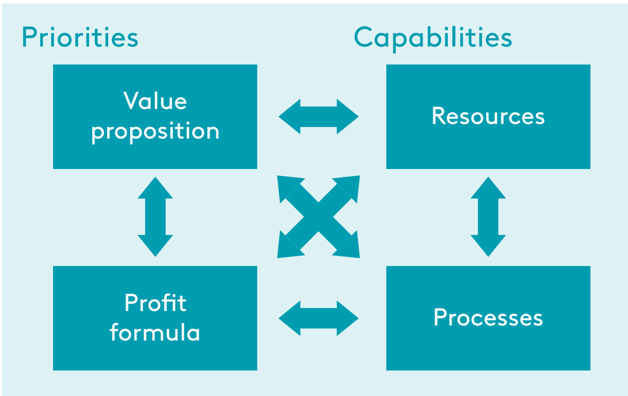

EXHIBIT 3

A firm-based view.
Source: Clayton Christensen,

For example, Clayton Christensen, writing in the MIT Sloan Review with colleagues Thomas Bartman and Derek van Bever, proposes a framework that links value proposition and profit formula to resources and capabilities (see Exhibit 3). Initially, it is enough to connect value proposition to resources, adding capabilities and profit formula as the new business is developed.

In contrast, Vijay Govindarajan 'Three Box Solution' moves from managing the present in Box 1, creating the future in Box 3, while selectively "forgetting the past" in Box 2 (see Exhibit 4).

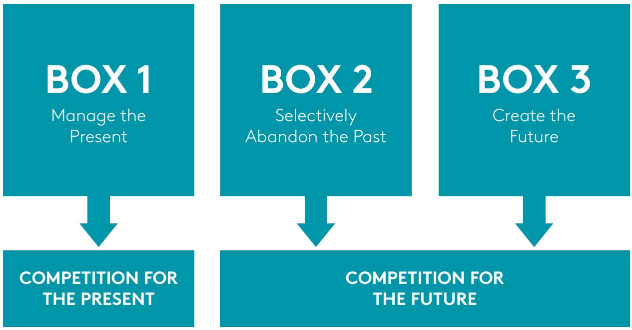

EXHIBIT 4
Present, past, and future in the Three Box model. Source: Vijay Govindarajan

"Box 2 and 3 are not about what the business will be doing in 20 years," writes Govindarajan, "they are about the preparations it must make today." Or as we would say, quoting the pioneering French futurist Gaston Berger, "The purpose of looking at the future is to disturb the present."

BUSINESS MODEL INNOVATION SHOULD RAISE QUESTIONS ABOUT WHO THE CUSTOMER IS AND HOW TO DELIVER VALUE TO THEM

Image source: Augustus Newsam

LOOKING OUTWARDS AND FORWARDS

One of the problems for incumbents is that innovation, or the lack of it, has become something of burning platform. As *The Economist* noted recently,

"In the past five years the profits of multinationals have dropped by 25%... In a majority of industries they are growing more slowly and are less profitable than local firms that stayed in the backyard." The recent short-lived bid for Unilever by Kraft Heinz suggests that, certainly in the packaged goods sector, companies are choosing margin or growth, but struggle to achieve both.

If the existing model is broken, incumbents don't have the choice of doing nothing. They need to do something different. From our research, and from our work with clients, we argue that you have to look both outwards and forwards, both at what is happening right now which is changing your business environment, and at the way in which drivers of change are reshaping its future. Without doing both, the ideas that emerge may not be rich enough to be worth the time and financial investment needed to take them to market.

One of the paradoxes of business models is that their enduring power comes from the fact that once established they are difficult to change, but that in the early stages of their development they need to be fluid as they iterate towards a new idea that sticks. The business will, in effect, be proposing to customers a new set of benefits or a new way of consuming the product or service. If the business model is successful, over time the business and its customers converge on a new agreement about how to value the benefits of the new model.

Business model innovation is, in short, a process that ought to raise new questions about who the customer is, about what the customer values, and new ways of delivering value to them. In the process of trial and error involved in addressing these questions, new answers emerge.

To take a familiar example, when Ryanair disrupted the European aviation industry, the way to deliver cheaper flights was by shortening turnround time and flying to second-tier airports. The customers weren't new passengers, but existing aviation passengers

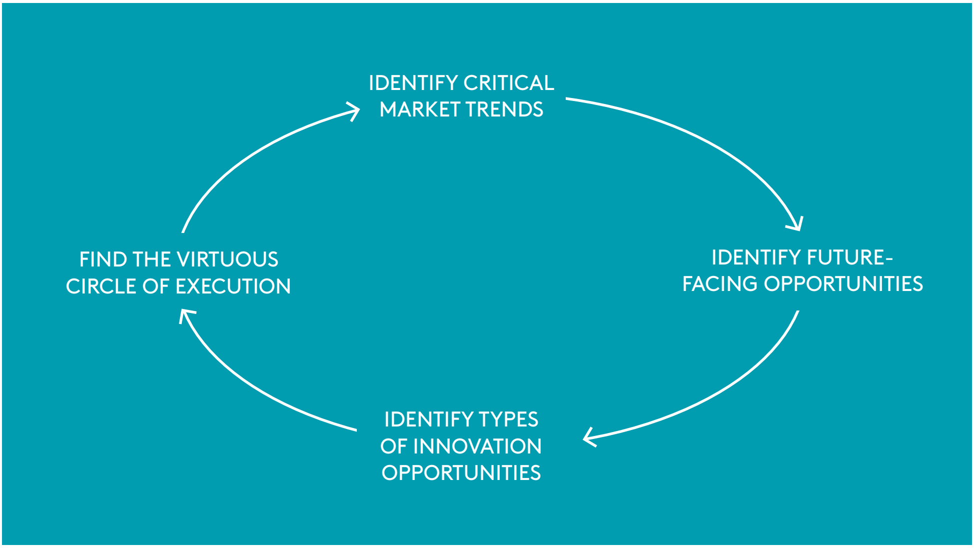

EXHIBIT 5:
Steps to business model innovation. Source: Kantar Futures

who were pleased to be able to fly more frequently. Sitting behind this was a host of new long-run drivers of change about travel and the value of experiences. The competitive set, it turned out, wasn't other airlines, but other leisure and entertainment options.

From our work, we have identified four steps to business innovation. We explore these in the following pages.

1 IDENTIFY AND UNDERSTAND THE CRITICAL TRENDS RESHAPING THE FUTURE MARKETPLACE

In our experience, business model innovation starts with a deep analysis of the external environment, looking at the core drivers of change and the emerging issues. This is, in effect, our Future Dynamics process, in which relevant drivers are identified, and the causal relationships between them understood, in order to develop a list of 'dynamics,' which taken together describe the way in which the business landscape is changing.

Central to this process is the fact that the Dynamics provide a consolidated view of change – looking at the relationships between changes in economics, politics, regulation, technology, the environment, as well as changing social values.

This makes visible shifting consumer purposes and needs, and from these come insight about new opportunities. It is opportunities that are key to business model innovation.

Although Clay Christensen writes of businesses being "lucky or skilled enough" to discover a new "job to be done" (his phrase) by a customer, we have found that this outward-looking and future-facing process always surfaces opportunities.

The breadth of the search matters too. The language of "job to be done" immediately circumscribes the imagination. It is not rich enough to identify new and changing expectations, and pushes the thinking in the business prematurely back into its existing mental models and competitive set.

BUSINESS MODEL INNOVATION OFTEN INVOLVES PROCESS CHANGES THAT ARE HARD TO COPY

2 IDENTIFY HOW THIS FUTURE MARKETPLACE CREATES FRESH OPPORTUNITIES

As these possible opportunities emerge, the way the business might deliver them comes into sight. If strategy equals opportunities plus capabilities, then effective innovation is always a dance between potential opportunity spaces and the present and possible capabilities of the business. The type of business model innovation depends on how this dance unfolds.

As Joan Magretta writes, "Part one [of business model innovation] includes all of the activities associated with making something: designing it, purchasing raw materials and so on." This can include services as well as products, of course,

"Part two includes all of the activities associated with selling something: finding and reaching customers, transacting a sale, distributing the product, or delivering the service. A new business model may turn on designing a new product for an unmet need, or on a process innovation."

CASE STUDY: Innovating across the value chain

BeverageCo had a flagship beverage product which was losing relevance and share. It recognised that many of the macro and competitive trends shaping the marketplace were running against them. Smaller, more interesting brands had entered the market – driving up interest in the category overall, but at the expense of bigger players. As in other sectors, these niche entrants engaged consumer interest and were able to command premium prices. The solution was to reframe how the business thought of its role – not as a global, scale player aiming to put the competition out of businesses, but as a category partner with a mission of growing the market for more interesting (and premium) beverages.

This mind-set shift required a change in the way the business operated right across the operating model:

- Opening up its facilities and sharing its production, market and distribution expertise with smaller players – co-growing the marketplace with innovative start-ups.
- Opening up new channels by partnering with nimble players in the fast growing tech-enabled home delivery market. These players access people and occasions in a more responsive way.

3 DISTINGUISH BETWEEN SIGNIFICANT AND TRANSFORMATIONAL INNOVATION

"Significant" innovation tends to change the process by which something is delivered without apparently changing the perceived need or the behaviours associated with it. "Transformational" innovation creates new behaviours around a category, or whole new categories. The less familiar the habits and behaviours, the longer it takes to innovate, but the rewards for success are likely to be greater.

This can be seen in Kantar Futures' four archetypes of business model innovation, discussed earlier. Significant innovation typically involves extracting (simplifying or reducing) or Upserving (increasing cachet or perceived value). Transformational innovation involves Bundling (for example, wrapping a product to shift it to a service or experience) or Market-making (aggregating demand and/or supply) (Exhibit 5).

The reason for this is that the first two typically involve fulfilling an existing purpose or need in a different way, without necessarily changing user behaviour. Bundling and Market-making, in contrast, are Transformational because they change customer expectations about the way a marketor a category is organised. Because customers have to learn, uptake is slower, but success is more dramatic. The short-run effect on competitors, and the long-run impact on the amount of value captured by the category, are likely to be profound.

One reason for distinguishing between Significant and Transformational innovations is that the paths to success are likely to be different. The first can be done effectively within existing business units, since they do not involve significant changes to user behaviour. The second, however, is likely to require separate business units, operating at arms-length from the core business, as Daimler did with its Uber competitor, MyTaxi. While this is a familiar issue in planning for business innovation, there are few tools for identifying how to make the decision on where to locate a particular innovation unit. The Kantar Futures business model archetypes help to do this.

There is an important implication in this for scale businesses. "Significant" innovation is where incumbents have a competitive advantage precisely because it involves innovating around existing patterns of user behaviour, and finding better ways to fulfil existing purposes or needs. Start-ups find this hard to achieve outside of niche areas.

4 LOOK FOR THE VIRTUOUS CIRCLES OF EXECUTION

The need to execute well is a notorious business cliché, even if it is true. But effective execution is about more than just doing it well and quickly. It is also about making sure that the business model contains elements that reinforce each other, which both generates value and makes the model harder to imitate.

Mercadona, which innovated by extracting, removing SKUs in low interest categories from its shelves and turning the space over to higher value and premium foods, reinforced this with an intense focus on the customer relationship. Staff were better trained and better paid, and process elements of the business (e.g. stock management) were automated to free staff to be out on the floor. In turn, this meant that they learnt quickly and directly what their customers' concerns were, and ideas from these customer conversations were fed back into an effective innovation process.

Image source: http://bit.ly/2ILIYKR

CONCLUSION

The battle to find growth through incremental innovation is already lost. In a world of slowing growth, companies will have to look for ways to create opportunity across the business model as a whole. While this is harder to do than traditional forms of incremental innovation, it has a number of benefits.

First, business model innovation moves the business away from the shrinking pool of value that is being contested by competitors pursuing conventional business strategies – enabling you to create and serve fresh pools of demand.

Second, it creates a more robust source of business advantage that is harder for others to copy or to disrupt. Copying ideas is straightforward. Understanding the structure of the business that sits behind them is much more difficult.

And third, the process of re-engaging with customers and their changing values, attitudes and behaviours aligns the business with social change in a way that makes it more resilient and creates a platform for long-run growth.

In a world of slowing growth, companies will no longer be lifted by a rising tide of prosperity. They have to find their own routes to growth in a difficult environment. Business model innovation may be challenging. But for incumbents, it may also be the only game that is still left in town.

BUSINESS MODEL INNOVATION MOVES THE BUSINESS INTO NEW POOLS OF DEMAND

HOW WE CAN HELP YOU

Moving successfully to new business models is always a challenge. Kantar Futures' Future Dynamics approach helps established businesses to identify opportunity spaces that are substantial enough to create the potential for innovation.

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