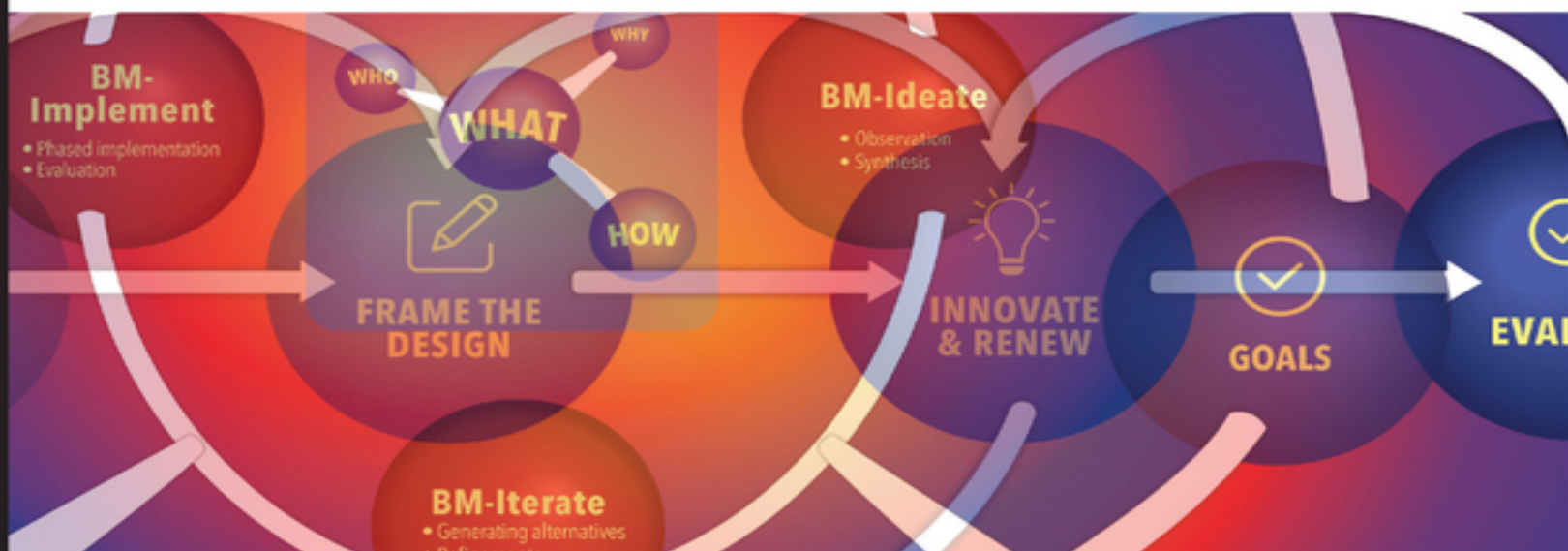


RAPHAEL AMIT AND CHRISTOPH ZOTT

BUSINESS MODEL INNOVATION STRATEGY



TRANSFORMATIONAL CONCEPTS AND TOOLS
FOR ENTREPRENEURIAL LEADERS

WILEY

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Praise for *Business Model Innovation Strategy*

Grounded in decades of rigorous research, Amit and Zott provide THE definitive guide to innovating a winning business model. Brimming with timely illustrations, the authors use the latest in “design thinking” to apply their crisp ideas to real-life situations. Perfect for the boardroom or the classroom!

**—Kathleen M. Eisenhardt, Stanford W. Ascherman
M.D. Professor, Professor of Strategy, and coauthor of
Simple Rules, School of Engineering, Stanford
University**

Amit and Zott give us a timely and important road map for dealing with the two intense challenges that we face as we climb out of the pandemic: surviving the shock and building a better future. The book clears the fog on finding a way forward through business model innovation, engaging the right partners, and making astute commitments – all while keeping the lights on.

**—Anita McGahan, University Professor, George E.
Connell Chair in Organizations and Society, and
Professor of Strategic Management, Rotman School
of Management, University of Toronto**

A business model is a core element of every entrepreneur's and senior manager's strategy. Amit and Zott's book is an up-to-date, comprehensive, insightful, and action-oriented manuscript on business model innovation strategy. Anchored in decades of research, filled with illustrations from around the world, and containing tools to help with formulating and implementing strategy for business model innovation, it is a valuable guide for

practitioners and a teaching resource for faculty and students.

**—Garth Saloner, Botha-Chan Professor of Economics,
Dean, Stanford Graduate School of Business (2009-
2016), Stanford University**

At last an excellent book on business model innovation...the crucial step that technology wizards often get wrong.

**—David J. Teece, Thomas W. Tusher Professor in
Global Business, Walter A. Haas School of Business,
University of California, Berkeley**

Blockbuster Video. Borders Books. Sears. Yahoo.
Encyclopedia Britannica. These were household names that were killed by innovative business models (that leveraged disruptive technologies). In their new book, Professors Amit and Zott provide entrepreneurs with actionable and hands-on frameworks to help founders build and implement innovative, robust, and disruptive business models.

**—Josh Kopelman, Founding General Partner, First
Round Capital; Founder, Half.com; Co-Founder,
Infonautics Corporation**

The rapidly changing world demands constant innovation and necessitates persistent revision and adaptation of existing strategies. This rigorous and insightful book by Amit and Zott features concrete business model innovation strategy techniques that complement the traditional scope of how to conduct business – a topic every company must urgently address to sustain itself long term.

**—Dr. Johannes Sommerhäuser, Senior Vice President
Innovation, Bosch Management Consulting; Robert
Bosch, GmbH**

Through a systematic approach with a structured framework and various case studies, the authors shed light

on how to build and execute innovative business models in the real world. The broad coverage of this book offers fantastic practical knowledge whether you are an entrepreneur or an academic researcher.

—Gang Yu, Ph.D., Co-Founder and Executive Chairman of 111 Inc. Former corporate executive at Dell and Amazon

Two of the pioneers in thinking about business models have now produced an invaluable book that brings the latest research to business model innovation. You will learn how business models can be innovated, and also why many times they are not. This will be an essential reference for years to come. Every business manager should buy and read it now.

—Henry Chesbrough, Professor at UC Berkeley-Haas, and author of *Open Innovation*

Finally we have a book on business models that is both conceptual and practical, and which fits exceptionally well in business strategy courses. Amit and Zott have brought all the essential elements together in a way that provides a useful guidepost for entrepreneurs starting a new business as well as those seeking to innovate their business model within established companies.

—Marvin Lieberman, Professor of Strategy; Harry and Elsa Kunin Chair in Business and Society; Senior Associate Dean, Anderson School of Management, University of California, Los Angeles

This is the go-to book on the art-and-science of designing and implementing innovative, scalable, and robust business models. Amit and Zott, the widely cited global thought leaders, offer a cutting edge, holistic understanding of what business models are, how to design them to create and capture value, and how to implement and modify them in

light of changing business conditions. I highly recommend this book to business school professors, students, managers, and entrepreneurs.

—Quy Huy, The Solvay Chaired Professor of Technological Innovation. INSEAD, Fontainebleau, France

As a business model innovation (BMI) consultant to many leading companies around the world, I realize the importance of anchoring my advice on actionable frameworks and tools that are based on rigorous state of the art research. Amit and Zott's timely and pioneering book provides such a perspective and is therefore a must read for any manager.

—Edward H.B. Giesen, IBM Global Business Services, Global Partner, European Growth Leader Digital Strategy/Global CBM Leader

This is essential reading and a practical handbook for entrepreneurs starting a new venture, or those charged with corporate innovation. A thoughtful, erudite, and fascinating read. I sincerely wish this book had been available when I started my first venture.

—Steve Jackson, Co-Founder and Group COO, Xoomworks

Business model innovation has been central to my social entrepreneurship efforts in the last ten years. The authors' profound insights into effective business model design and strategy explained in this book have been instrumental for the success of my projects, some of which serve millions of beneficiaries. I am thrilled to see the authors' breakthrough thinking in action-oriented form in this book; thousands of entrepreneurs will benefit greatly from it, just as I have.

—Gopala Krishnan, Founder and CEO, Inditech Technology Services Pvt Ltd.

Amit and Zott have written a must-read primer on business model innovation. If your objective is not only surviving the crisis but thriving in the “new normal” then you found the right source of inspiration.

—Bruno Lea, Entrepreneur and President, Performer CNC, France

Based on a comprehensive set of cutting-edge research projects, Raffi Amit and Christoph Zott turn what was the black art of business model innovation into a pragmatic and reliable framework for the managerial toolbox. Their concepts will become the benchmark for strategy and innovation consulting, teaching, and research.

—Dietmar Harhoff, Director, Max-Planck Institute for Innovation and Competition, Germany; Honorary Professor, University of Munich

The business model construct has fundamentally changed how firms – small and large, young and established – create and appropriate value...and how they innovate! With *Business Model Innovation Strategy*, Raffi Amit and Chris Zott have created a book that strikes just the right balance: in a highly inspiring manner they combine action-oriented insights with thorough analysis of the primary factors shaping business model design and implementation. Let them be your expert guides on your business model innovation journey!

—Marc Gruber, Chaired Professor of Entrepreneurship and Technology Commercialization, Swiss Federal Institute of Technology, Lausanne, Switzerland

As a company in the process of digitalizing its business models, we are facing exceptionally challenging times. Based on our ambidextrous strategy, it is of utmost importance to adopt a comprehensive, holistic approach to

our innovation activities. By offering scientific concepts and practical examples, this book is an essential guide for incumbent firms seeking to develop a successful business model innovation strategy.

**—Dr. Uwe Kirschner, Vice President Bosch
Management Consulting, Partner Business Model
Innovation**

My team at Next47, a Siemens backed accelerator, is helping Siemens identify and create its next generation of high-growth businesses. Amit and Zott's rigorous and insightful analysis provides invaluable guidance for the mission-critical business model innovation strategy that every market leading company must adopt.

—Dr. Matthias Roth, Director at Next47, Siemens AG

I am a big fan of business model innovation. Done right, as we did at Dianping, it creates a much larger, sustainable, and defensible business that can have a huge impact on society at large. Amit and Zott's groundbreaking book has a very practical orientation and is a must-read for every entrepreneur and manager.

**—Tao Zhang, Chairman, Internet Plus Holdings Ltd.
Founder, CEO and Chairman, Dianping.com**

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**TRANSFORMATIONAL CONCEPTS AND
TOOLS FOR ENTREPRENEURIAL
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To our parents, wives, and children, who have inspired and motivated us and supported us firmly in our scholarly endeavors for many years.

Preface

We completed the writing and editing of our book during the height of the global COVID-19 pandemic, which triggered a severe and multifaceted global crisis. The crisis included simultaneous, interrelated, and unprecedented shocks relating to public health, global transportation, individual freedom, international collaboration, and the world economy. The global economy suffered from both supply- and demand-side shocks that generated extraordinary economic upheaval and widespread unemployment. The coronavirus pandemic also caused a major shock in global capital markets and extreme volatility in domestic and international financial systems. Uncertainty regarding the future reached the highest level in over a century. Temporary and permanent business closures, along with bankruptcies, resulted in the loss of millions of jobs. Many people lost their lives to the pandemic, especially the old and vulnerable.

A catastrophe of this scale is likely to alter the preferences, habits, and risk attitudes of consumers, in part because of long stay-at-home and social distancing measures; the strategies of managers; and economic, social, and political policies. While this crisis will have profound and broad social and economic implications, and the exact nature of the so-called “new normal” will only be revealed in the coming months and years, what seems very likely at this time is that many companies – large and small, public and private, for-profit and social – will be prompted to reinvent and reimagine themselves to be able to survive and prosper. Executive leaders around the world will have to take a hard look at how to do business in the post COVID-19 era, since the shocks caused by this pandemic will affect

every aspect of a company's business model and the technologies used to enable business operations.

Prior to the coronavirus pandemic, many companies focused on finding the most efficient architecture for their activity systems. That resulted in outsourcing many activities to partners and vendors, often located abroad, which led to the formation of complex global supply chain networks. The shock to these global supply chains that resulted from the abrupt and comprehensive shutdown of economies in Asia, Europe, and the U.S. caused enormous disruptions in a broad range of industries; most notable during the coronavirus crisis were medical equipment and hospital supplies. As a result of the shock to supply chains, coupled with likely changes in the preferences of consumers, numerous challenges arose for established companies. These challenges may, however, reveal new opportunities. The “new normal” that may follow the crisis and the uncertain pace of recovery from the current global recession will incentivize startup entrepreneurs and corporate leaders alike to rethink the design of their business models; to adopt a system-level approach to business model design; and to embrace a preference for resilience over efficiency in the conceptualization and the design of their business models along with enhanced use of digital technologies. These developments will drive substantial structural changes in the architecture of the activity systems of firms. In other words, they will likely spur business model innovations, and thus heighten the need for entrepreneurial leaders to develop a business model innovation strategy, as outlined in this book.

Our book is targeted at both the academic and professional markets and is intended for a global audience. Faculty and students use it as a textbook in both degree and non-degree programs; entrepreneurial leaders in both new and established businesses (both for-profit and non-profit) use

this book as a rigorous, comprehensive, and detailed guide to enable the design and implementation of innovative, scalable, and robust business models for their companies. While the book is deeply anchored in theory and rigorous empirical research, it has a very pragmatic orientation and is filled with examples and illustrations from around the world. We draw on over 20 years of pioneering research that originated in 1999 on the 8th floor of Angus Hall at the University of British Columbia in Vancouver, Canada, where we met in 1995. The book is a true team effort involving thousands of hours of collaboration and brainstorming sessions in person and via electronic communication technologies. Our extensive joint publications on all aspects of business model innovation strategy have been widely cited by scholars and practitioners around the world. At the same time, we draw on the impressive and rapidly growing body of collective scientific research on business models generated by colleagues at notable academic institutions. In our teaching and consulting work, the concepts and in particular the processes that are contained in the book have proven effective at enabling entrepreneurial leaders in both startups and established incumbent firms to conceptualize, design, and implement innovative and value-creating business models for their companies.

The book content is organized into three parts as follows:

[Part I: Foundation and Mindset for Business Model Innovation](#)

The first part of our book lays out the conceptual foundation of the business model construct. In [Chapter 1](#) we define the business model as a system of interdependent activities and present the framework that we developed through our research, which serves as the common thread throughout the book. In [Chapter 2](#) we lay the theoretical foundations of the business

model construct and show that the business model is a new strategic issue that complements traditional corporate and business strategy issues. [Chapter 3](#) highlights the importance of adopting a holistic business model mindset, which is crucial for understanding, developing, and implementing business model innovations. Finally, [Chapter 4](#) formally defines business model innovation and illustrates it through a series of real-world examples.

[Part II: Strategic Design and Evaluation of Business Model Innovation](#)

[Part II](#) of the book presents practical strategies and hands-on tools to help managers and entrepreneurs obtain real, workable skills for business model innovation. [Chapter 5](#) introduces important concepts from the field of design, a methodology that is highly applicable to the development of novel business models, and [Chapter 6](#) offers a dynamic process method for business model design. Other relevant methods for business model design, including received processes of venture design, are surveyed in [Chapter 7](#), and the related key concepts of value drivers and value propositions are covered in [Chapter 8](#). [Chapter 9](#) offers an essential toolkit for conducting business model analysis and designing new business models.

[Part III: Making Business Model Innovation Happen](#)

To create lasting capabilities to adopt a business model innovation – and continue innovating through time – it is crucial to be aware of business model implementation challenges and how to successfully address them. This is the focus of [Part III](#) of the book. [Chapter 10](#) focuses on the implementation of business model innovation in established firms and the specific challenges such firms are faced with. [Chapter 11](#)

discusses the specific barriers that can arise in new ventures and the associated mitigation strategies. Finally, [Chapter 12](#) highlights the important role of the business model in the context of digital transformation and lays out the different steps involved in developing a business model innovation strategy.

Our hope is that the book will become a helpful companion for faculty who wish to teach business model innovation strategy, a vital tool for students who study the subject in degree and non-degree courses, and, very importantly, an essential guide for entrepreneurial managers who seek to develop a winning business model innovation strategy for their firm.

Raphael Amit (Philadelphia, USA) and Christoph Zott (Barcelona, Spain)

July 2020

PART I

Foundation and Mindset for Business Model Innovation

1

Why Do Business Models Matter? The “What, How, Who, and Why” Framework for Understanding Any Business Model

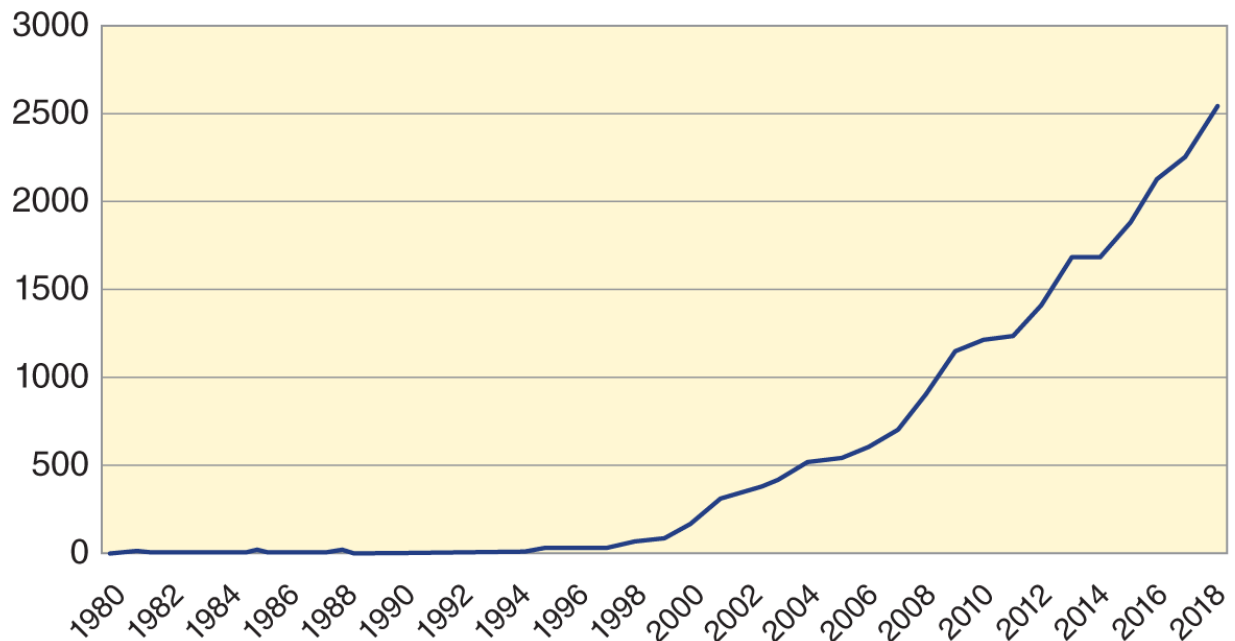
Why Do Business Models Matter?

In the past few decades, innovations in computing and information technologies have accelerated, instigating a fundamental shift in the economic and competitive landscapes. The changes that this shift has been fueling are pervasive, comprehensive, and disruptive. Often touted as the “digitalization of business,” they go far beyond increasing firm efficiency and profitability through digitizing individual processes or functions within firms. They are profound, holistic, and may shake firms to their core. They encompass every industry in every corner of the world. They present new and exciting business opportunities in industries that were considered all but immune to attacks from newcomers. These developments present enormous opportunities for aspiring entrepreneurs whose innovative business models can disrupt entire industries, as Airbnb did in the hospitality industry, or Uber did in the industry for personal transportation. Managers of incumbent firms need to explore new possibilities for value creation that are anchored in the redesign of their firms' business models, as Charles Schwab, the financial services firm, did when it transformed its business model from call center-assisted trades to enabling clients to trade electronically themselves using a web-based platform. On the flip side, every manager of every well-performing firm

needs to take seriously the possibility of eroding margins that result from competitors' business model innovations.

A business model is about “how to do business,” and business model innovation is about “how to do business in new ways.” Together, they have become crucial strategic issues for general managers, entrepreneurs, investors, and all those aspiring to assume any of these important roles at some point in their professional careers. Hardly recognized or talked about until the end of the last century, the concept of the business model suddenly became “en vogue” in the mid-1990s, emerging as a key topic in conversations about new business opportunities and how to capture them (see [Exhibit 1.1](#)). It has since become a core ingredient for opportunity analysis and development, and has yielded the development of important new tools such as the Business Model Canvas.¹ Our book presents an important step forward in several aspects: first, by offering a unique blend of scientific concepts and insights with practical tools and examples; second, by providing an actionable framework for business model innovation that focuses on needs and activities; third, by highlighting the strategic aspects of business model innovation; and, last but not least, by adding a dynamic dimension that considers the entire process – from inspiration to implementation of business model innovation.

Exhibit 1.1 Interest in Business Models as Measured by Published Articles



The “take-off” of the business model as an important determinant of a company's financial performance occurred in parallel with the introduction of the internet, the development of the first browsers (such as Netscape) that made the internet technology accessible to the broader public, and the ability to monetize business model innovation, as evidenced by the sky-high valuations of IPOs (Initial Public Offerings)² in the second half of the 1990s and the early 2000s. This period saw the first wave of companies, including Amazon, eBay, Google, and Yahoo, that used internet technology to power their innovative business models and thereby reach millions of customers. Three of these firms had their IPOs in 1996–98 (Google went public in 2004). Compared to their established competitors, these companies introduced entirely new ways of doing business.

Amazon began as an online bookseller, which fundamentally changed the way customers shopped for books. eBay established an online platform where

individuals could buy used goods from specific sellers, not unlike a flea market but on a much larger scale, and without requiring the physical presence of either buyer or seller (or, for that matter, the goods being sold). And Google and Yahoo offered new ways for people to search for and consume information, thus also offering new opportunities for advertisers to deliver their messages to large numbers of potential target customers in a highly tailored and personalized fashion.

These early success stories suggested that something about business had fundamentally changed. It was not, as some pundits had initially believed, that the world had entered a new era of boundless opportunities and goldilocks economies in which the received economic laws were no longer valid. The stock market crash of 2001 and the subsequent failures of firms that had once been much hyped about and had attained high valuations (such as Webvan or [Boo.com](#)) made this abundantly clear. Yet, despite all the skepticism that followed the initial hype in the wake of the stock market bust, Amazon, eBay, Google, and Yahoo managed to survive, and with them the insight that technology-enabled business model innovations had become a new reality for managers to be reckoned with; that is, managers realized that leveraging and deploying advanced computing and communication technologies in order to create value for a firm's stakeholders presented a fundamental challenge to the status quo of their firms. So, what exactly had changed? What was new?

Quite simply, the business model had become one of the core strategic choices that general managers and entrepreneurs (and those who support and invest in them) need to consider. It answers the question: How should the firm do business?³ For decades, the key strategic decisions that managers and entrepreneurs were asked to address, which were also highlighted in management courses,

centered on: (i) corporate strategy issues, and (ii) business strategy issues. Corporate strategy issues concern the scope of the firm and include such questions as: What industries and product market segments should the firm be in? How should the firm enter these markets (i.e., through mergers and acquisitions, joint ventures, or de novo entry)? When should the firm enter these markets? Business strategy issues center on establishing and sustaining the competitive advantage of a firm. They include such questions as how to compete in a particular product market (e.g., compete on the basis of differentiation or cost leadership?), and what resources and capabilities to acquire or develop.

The advent of the internet did not undermine the importance of these classic choices; they remain as valid and relevant as ever. However, it added an essential strategic choice onto the entrepreneur's and general manager's plates, namely the question of *how to do business*. This question does not replace, or diminish the importance of, any of the previously mentioned strategic issues. Rather, it complements them and thus expands the range of strategically relevant considerations for entrepreneurs and managers who are keen on pursuing and exploiting new business opportunities in addition to defending and securing their existing ones. In other words, addressing the business model question has become a strategic imperative for entrepreneurial leaders.

Technological change – mainly in information and telecommunication technologies, as we will explain in more depth in [Chapter 5](#) – has enabled the development of entirely new business models, whereas in the past technological change mainly spurred the development of new products and processes.

For example, Reed Hastings and Marc Randolph, the co-founders of Netflix, which was incorporated in 1997,

utilized the internet to introduce a business model innovation in the video rental industry. Up until that point, the industry had been dominated by incumbents such as Blockbuster. Now, instead of picking up a movie at a specialized rental shop, customers could receive DVD rentals from Netflix through the mail.⁴ This represented a business model innovation, as it involved an entirely new way of doing business, for which Netflix even secured a business method patent. The new model relied on customers selecting and renting movies online instead of going to a shop; burning DVDs in partnership with DVD manufacturers just-in-time as customers ordered the movies; and shipping the DVDs via the United States Postal Service with a pre-paid return envelope directly to the customers.

Senior managers are well aware of the threat posed by disruptive digital newcomers. A survey conducted among C-level executives finds that “competition isn't just coming from new permutations of old industries ... it's also coming from digital invaders with totally different business models.”⁵ One of these digital invaders, Uber, was created in 2009. In its last pre-IPO private equity financing round on August 27, 2018, Uber raised \$500 million at a pre-money valuation of \$71.5bn with reported 2017 revenues of \$7.5bn.⁶ This compared with a market valuation of about \$34bn (about half of Uber's) for Ford Motor Company in late 2018, on annual revenues of approximately \$160bn (about 20 times Uber's 2017 revenues).⁷ Ford, a pioneering car manufacturer, was founded in 1903, over a century before Uber. Clearly, investors expected Uber to do well in the market for personal transport, estimated at \$10tr annually.⁸ Another digital invader, Airbnb, a home-sharing company founded in 2008, was valued in 2018 at \$31bn on estimated annual revenues of \$3.5bn for 2017.⁹ This company, which does not own or operate any real estate,

was widely considered a challenger to the hotel industry, which had not seen any significant innovation for decades until the rise of home-sharing business models. In comparison, Hilton, an established hotel chain with a well-known global brand, had a market valuation of \$21bn that was about 30% lower than that of Airbnb.¹⁰ The differences between the valuations of incumbents such as Hilton and Ford, and the new entrants into their industries such as Airbnb and Uber, respectively, can be attributed in part to their vastly different business model designs. More specifically, it can be attributed to their technology-driven business model innovations. Airbnb did not just invent a new hotel format; it introduced an entirely new method for providing a place to stay for those in need of accommodation.

In a nutshell, business models and in particular business model innovations matter because they are a source of opportunity for entrepreneurs and for entrepreneurially minded managers (who are sometimes called *intrapreneurs*) in established firms. They also matter because they have financial performance consequences. Business model innovation refers to the conceptualization and implementation of new ways of doing business in order to better address the imperfectly met needs of customers and other market participants such as suppliers. Business models are a locus of innovation and value creation, as the founders of Uber – Garrett Camp and Travis Kalanick – or the founders of Airbnb – Brian Chesky, Joe Gebbia, and Nathan Blecharczyk – can testify. For new ventures as well as for established firms, they open new paths for exploiting market opportunities, beyond coming up with new products or services.

Car manufacturers like Volkswagen (VW) have clearly understood the strategic importance of business model thinking for their own future market positioning and