When was the last time you considered a broader definition of your business model, beyond your products or services and their price points? We believe thinking about your business model in broader terms leads to more open space for innovation. Smart organizations around the world are doing it and seeing the benefits. However, once you enter the game, recognize that **business-model innovation will need to become your standard mode of operation.** The world is simply moving too fast for you to stay relevant unless you commit to innovate your model as you anticipate change.
Consider Netflix, one of the most successful early dot-com ventures and widely known for driving Blockbuster into bankruptcy. Unlike other companies who, for a variety of well-documented reasons, haven’t anticipated or acted on market turbulence (think Blockbuster or Research in Motion, makers of that Blackberry device that’s now buried in your desk drawer), Netflix realized business-model innovation was going to be the key to success from the very beginning.

After revolutionizing the DVD rental business with a new approach to delivery, the company is now facing its biggest challenge yet—to maintain the world’s largest video-subscription service and its relevancy as a company. After implementing an unpopular price increase and unsuccessfully spinning its DVD rental business off into a separate company (Qwikster), Netflix lost 800,000 subscribers and its share price dropped 60%. Discontinuing marketing efforts on its DVD business, the company now expects to lose DVD subscribers every quarter. Looking forward, Netflix plans to continue to invest heavily in content deals and international expansion, focusing on innovating new elements of its business model rather than simply relying on adding new content. While the story is still unfolding, some investors are optimistic that Netflix’s new deal with Warner Brothers will stabilize the company and give it a level of protectable differentiation in the video-streaming space. However, as services like Amazon Prime grow and as Apple considers entering this space, Netflix will need to continue to innovate or they may risk being acquired.

To that end, we’ve been exploring changes in the business world that are driven by economic instability, Wall Street pressure, consumers’ new definition of value and an ever-expanding menu of new technology.

We’ve uncovered four broad trends that are both enabling and demanding business-model innovation. Here’s a deeper look into each trend, including the innovations enabled by each and a few inspirational examples of how companies are benefitting from adapting and evolving their business models.

Trend 1: Permanent Beta
Trend 2: Anytime, Anywhere
Trend 3: User-Defined Value
Trend 4: Put Your Money Where Your Mouth Is
Trend 1: Permanent Beta

The line between startup and business-as-usual in established organizations is blurring as traditional companies begin to embrace entrepreneurship as a key competency. Small, forward-thinking experiments, iterative co-creation of new ideas and new approaches to multifunctional collaboration are transforming the way companies operate. These initiatives are unleashing employee ideas, reducing rework and complexity, increasing agility and driving both top-line and bottom-line results.

“...traditional companies begin to embrace entrepreneurship as a key competency.”

Let’s look at a few examples. Against increasing pressure for retailers to draw in more shoppers, fashion-specialty retailer Nordstrom completely restructured its innovation process, developing a customer-focused internal consultancy they call the Nordstrom Innovation Lab. Working as a streamlined startup within the Fortune 500 company, the Lab leverages a diversified talent base and utilizes tools similar to those of a lean startup for rapid results. To overcome the typically slow, overly methodical pace of other corporate initiatives, it conducts a series of rapid, one-week experiments, launching products in beta form to quickly identify strengths as well as challenges or issues that can be overcome as they iterate new versions of the product throughout the test. As a result of this process change, Nordstrom is attracting a broad diversity of thinking, increasing relevance through in-field rapid prototyping and hastening go-to-market time for more on-trend products and services that continually define and redefine their hallmark first-class service. While the Lab expects 80% of the products it develops to fail, an early idea sounds promising—an iPad app that allows shoppers to try on and compare sunglasses.

While Nordstrom chose to leverage its internal strengths through process innovation, Texas-based Lancaster Advertising & Marketing restructured its organizational model to tap into the strong, diversified talent available in the “freelance nation.” In 2004, the small business employed 15 full-time staffers in a 4,000-square-foot office; now, the founder is the only full-time employee and the office space has dropped to 350 square feet. Instead of employing a staff, the company utilizes between 15 and 30 specialist freelancers—software programmers, search-engine marketing specialists, graphic designers and more—pooled from a vast global talent base that includes the US, Asia, Eastern Europe and South America. The results? Decreased overhead, increased flexibility and a solid plan for a more diverse portfolio of deliverables to better delight a whole new set of clients.

Watch this video to get a behind-the-scenes look at how this innovative approach is driving results for Nordstrom.
Trend 2: Anytime, Anywhere

Technology has increasingly been teaching consumers that they can get answers as soon as they ask questions and get responses to their Facebook posts within seconds; instant gratification is clearly the new norm. Proactively leveraging this new reality and the technology enabling it, forward-thinking companies are now innovating how they drive awareness of product lines, enable purchases, deliver products to consumers or customers and manage their inventory—all significant drivers of lower cost and higher levels of consumer delight.

“For example, online men’s retailer Bonobos is innovating its approaches to marketing, retail display, inventory, purchase and customer engagement by embracing the concept of showrooming traditionally leveraged by car dealerships and interior designers. In 2012, Bonobos opened brick-and-mortar men’s-club-like guideshops to offer customers real-life merchandise interaction, including beer and complimentary fitting consultations. While consumers are encouraged to try clothing items on for fit and look, they place all orders online, enabled by a personal profile that lists the products they love, their perfect sizes and ideas for other items to complement their in-showroom choices. The guideshops boast tremendous results: 90% conversion rates, five times the sales per square foot of traditional retail stores and orders twice the value of average Bonobos purchases. Bonobos also gets real-time feedback from a base of increasingly loyal customers to better guide its fashion buyers.

Taking a lesson from Apple’s anytime, anywhere approach, JCPenney is innovating how and where customers pay for merchandise by bringing traditional behind-the-counter activities onto the sales floor for a more seamless shopping experience. The retailer began rolling out mobile checkouts in late 2012, including both mobile cashiers and self-checkout stations equipped with RFID-based systems that eliminate the need to physically scan items. On-the-spot checkouts increase conversion by reducing checkout wait times and completing the transaction while the customer is engaged and convinced. This innovation also reduces overhead because mobile checkout technology is far less expensive than traditional registers and real estate within the store is freed up to house profit-driving items.

In urban Detroit, small grocery stores are advancing their consumer connectivity and inventory strategy by adopting a high-frequency, low-volume replenishment strategy that allows for greater merchandise variety. By syncing online order systems to a local warehouse stocked with pre-sorted fresh foods, the stores are able to receive merchandise within three to five hours of ordering. This inventory innovation enables the grocers to carry a wide and shallow assortment, providing consumers with a variety that increases conversion and product turnover enough to offset any increase in transportation and logistical costs. Because the rapid-delivery system virtually eliminates the need for backstock, stores require a smaller brick-and-mortar footprint and therefore less overhead.

Watch this video to better understand how Bonobos is innovating to leverage the concept of showrooming.
Trend 3: User-Defined Value

What do you get when you combine price-savvy consumers with easily accessible big data? Interestingly, we find the answer to be micro-niche customization—highly customized products, services and experiences and personalized pricing. The segmentation that forward-thinking companies are leveraging goes well beyond the old notion of mass customization; those that are doing it well are innovating everything from their product-development processes to pricing structures, partnership models and marketing strategies.

Caterpillar, Inc. has radically altered its product-development process, leveraging structured crowdsourcing during various decision-making processes to develop products tailored to a highly specialized group of customers—professional truck drivers. During the creation of their CT660 multipurpose truck, Caterpillar invited professional truckers and other potential buyers to contribute design-improvement ideas and real-time feedback before the product ever reached market. This product-development innovation enabled a highly engaged niche market of customers to drive rapid-pace development, resulting in a much more relevant truck design with a significantly decreased time-to-market and increased brand affinity with its core user group.

New York startup Greentoe took a new approach to integrating user-defined value when it simultaneously innovated its pricing model and its partnership model. The name-your-own-price retail website links buyers with merchants, allowing consumers to decide their desired price on an electronic item, then allowing retailers to match or refuse the offer. While both parties actively control the selling price of over 15,000 products, the company provides another layer of value to its merchants—it serves as a customer acquisition vehicle, allowing them to collect consumer data. Merchants who actively collect data give Greentoe a higher cut of each transaction, up to 15%. This innovation encourages both repeat consumers and repeat partnerships, allows new growth opportunities due to its agile profit structure (the company plans to add 15–20 product categories by mid-2013) and increases market share by presenting highly relevant offerings to niche consumers.

Like Greentoe, online retail middleman Netotiate successfully innovated its partnership model in conjunction with its pricing model to simplify and improve both consumer and partner costs. The Netotiate Inbound Product Feed, launched in 2012, features a consumer-to-merchant online platform in which merchants for products like glasses, cameras, watches, tools, appliances and computers can publish their entire inventories for consumers to compare prices and make purchase offers. Most price-comparison sites utilize cost-per-click billing, charging merchants every time their products are viewed; Netotiate, however, functions on a cost-per-acquisition platform, charging merchants only when a sale is finalized. Providing merchants with the ability to upload unlimited inventory gives consumers access to a broader selection; in return, satisfying both partners and consumers increases the company’s conversion and profit margin, drives strong future partnerships and promotes consumer loyalty.

Finally, an experiment is underway at Sweden’s Festival 2014, which hopes to be the first-of-its-kind, open-source music festival. Ticket buyers get to choose the lineup after they purchase their tickets; as the number of tickets sold increases, so does the popularity index of the headliners. This experimental approach leverages an open call for help from music lovers, a strong Facebook presence and the city of Umea being chosen as the “cultural capital of Europe” for 2014—all to deliver a truly open-source, user-defined experience.
Trend 4: 
Put Your Money Where Your Mouth Is

Driven by the global financial crisis, the eco-movement and the infiltration of cause marketing, companies are adopting a holistic mindset that intertwines profit, consumer centricity, social-cause orientation and environmental stewardship for an evolved perception of value. Companies are innovating their distribution and financial models and, as a result, their overall value propositions as lines blur between internally focused profitability and externally focused practices that make a difference in the world.

Panera Cares, a chain of pay-what-you-can cafés in urban areas like Chicago and Portland, allows each patron to pay as much of—or more than—the recommended amount, allowing money-strapped patrons to receive discounted or free products. By utilizing an existing storefront and building on the brand’s established consumer trust, the cafés appeal to both wealthy and lower-income patrons. On average, each location brings in between 70% to 75% of the would-be retail value, earning enough to be self-sustaining. Such a business-savvy financial innovation allows Panera to further its value proposition by giving back to the community while generating brand loyalty among existing customers and allowing brand exposure to a wide variety of income levels.

Moving beyond just “talk,” organizations are making a difference in the environment by innovating their distribution and logistics processes beyond eco-efficiency to true eco-effectiveness. OneMorePallet provides shared shipping for smaller shippers, saving cost and fuel. Method, the well-known home-care brand with a strong equity long focused on sustainability, recently developed a biodiesel shipping program featuring next-generation, fuel-efficient delivery trucks that are not only lighter and more streamlined, but run on plant oil and petroleum-blend fuel, and release 20% fewer environmentally damaging pollutants than standard trucks. At least some portion of the savings is passed along to the end consumer in the form of lower prices while loyalty, image and category leadership continue to be strengthened.

Watch this video for a more detailed explanation of OneMorePallet’s eco-efficient model.

With the modern business landscape in a state of constant flux, successful organizations must embrace change and adapt their business models:

**First**
Adopt a broader definition of your business model beyond the products you make and the prices you charge. Consider distribution, pricing, logistics, organizational structures, product-development processes, financial models and approaches to marketing. What assumptions have you built into your model that may no longer be relevant?

**Second**
Learn about how customer and consumer needs are changing, understand emerging technology you could leverage and get inspired by keeping a pulse on innovative new models within and outside your industry.

**Third**
Put a cross-functional team on a mission to drive meaningful innovation within one element or across multiple aspects of that model.

**Fourth**
Don’t rest. Change and the need to innovate your model will likely never slow. Being agile and open to new approaches to business-model innovation is the only way to achieve sustainable success.
The Garage Group is a new kind of strategy firm building entrepreneurial processes and capabilities for innovation.

We work with teams to crystallize their innovation strategy, uncover insights and convert them, along with trends and cross-industry analogs, to generate ideas. We facilitate turning ideas into holistic business model prototypes that can be piloted and scaled. In addition, we create and lead training programs and modules on the skills and behaviors that ensure innovation can happen sustainably throughout an organization.

Across everything we do, we leverage principles and practices from the world’s most innovative companies and successful entrepreneurs – we combine focus, planning and measurement with relentless customer focus, smart risk taking and experimentation.

Our clients include Fortune 500 companies and brands like Procter & Gamble, Staples, Tide, Always, Nationwide and Jergens; professional-service firms like LPK, Kantar and TNS; as well as health-care organizations like Cincinnati Children’s Hospital and the Greater Cincinnati Health Council.

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