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Published in:
Business Horizons

DOI:
10.1016/j.bushor.2018.03.003

Implementing New Business Models: What Challenges Lie Ahead?

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Acknowledgment:

The authors would like to thank the members of the department of Innovation Management & Strategy, University of Groningen for their helpful advice and constructive feedback on earlier versions. A special thanks goes out to Tineke Kooijenga for her assistance in editing the manuscript.

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ABSTRACT

What strategic choices do business leaders make when implementing new business models? This study tries to answer this question by analyzing the development of several business model innovations that were new to the industry. We find that business model innovators face four strategic tradeoffs during the implementation of their business model innovation process and that they deal with resulting tensions concerning: (1) the level of independence granted to the developer, (2) the degree to which the roadmap is planned in advance, (3) the degree to which the value proposition challenges the status quo, and (4) the rigor to which business model innovators preserve the logic of the initial value proposition. Our in-depth analysis reveals that business model innovators make pragmatic decisions that may deviate from the guidelines offered by the literature, and it offers insights into the drivers behind these decisions.

1. INTRODUCTION

The emergence of disruptive technologies, shifting regulatory environments, and the wider availability of big data make business model innovation (BMI) vitally important. In McKinsey's 2010 Global Innovation Survey, 80% of the executives indicated that their business models were at risk, as new entrants and competitors challenged their existing business models with breakthrough innovations and new value propositions. Yet, BMI is very difficult to achieve in practice, as the barriers to changing business models are substantial (Chesbrough, 2010). Although 94% of the executives had attempted some degree of BMI (BCG Survey, 2014), only 6% of the executives were satisfied with their innovation performance (McKinsey Global Innovation Survey, 2010).

Most discussions around BMI focus on how firms should translate new technologies or business ideas into new business models. Various authors prescribe how firms should craft a business model that enables them to deliver and capture value from their innovations (Chatterjee, 2013; Teece, 2010). This literature stream stresses the relevance of developing a value capture logic by creating an architecture that creates value for customers, delivers it to them, and installs mechanisms to capture value (Chatterjee, 2013; Kesting & Günzel-Jensen, 2015; Teece, 2010). Hence, the common approach is a *design* approach that explains and prescribes how an initial idea should be strategically commercialized.

The process of implementing and upscaling business models – the sustaining or efficiency stage – is, however, still relatively underdeveloped (Berends, Smits, Reymen, & Podoynitsyna, 2016; Birkinshaw & Goddard, 2008). Despite the identification of several dilemmas that occur during the BMI-journey, regarding what organizational form to choose (Christensen, Bartman, & Van Bever, 2016), how to plan ahead (Sosna, Trevinyo-Rodríguez, & Velamuri, 2010), and how to reconfigure and develop a convincing value proposition (Albert, Kreutzer, & Lechner, 2015; Bohnsack & Pinkse, 2017), not much is known about what firms *do* to resolve them, and *why*. This lack of research is surprising given that many business models fail *during* implementation (Christensen et al., 2016). In response, this article tries to answer the following question: What kind of challenges do business model innovators (i.e. those responsible for the strategic development of the business model[1]) encounter during business model implementation, and how do they deal with the challenges? This paper thus seeks to understand challenges or tensions that business model innovators face that go beyond the initial formulation of BMI, and what motivates them to respond in a certain way. It aims to show *how business model innovators implement* their innovative business model, *what strategic choices* they make, *and why they make these decisions*, once they have developed a new business idea and logic.

We review the business model literature and perform case-based research to reveal four strategic tradeoffs relevant to business model innovators: (I) the degree of organizational freedom granted to them, (II) the degree to which they rely on planning versus experimentation, (III) the degree to which the value proposition challenges the status quo, and (IV) the persistence of using the same value proposition logic. In line with the design approach, the business model literature often prescribes a single one-size-fits-all strategy about how to deal with the tradeoffs, neglecting the idiosyncratic firm attributes and market context.

Our multiple case study analysis shows that business model innovators make different decisions regarding the same trade-off, and sometimes purposefully go against the propagated guidelines. Our in-depth analysis reveals four strategic tradeoffs that in effect represent exploration-exploitation tradeoffs in which firms need to consider selecting a position on either of the two extremes to stimulate exploratory or exploitative outcomes. To resolve acute

[1] We define business model innovators as those persons who are *directly* responsible for the development and implementation of the business model. They strategically manage the business model's building blocks (including value proposition, key partners, key resources, key activities, channels, customer relationship, and customer segments) – often residing in a (new) business unit that runs the new business model.

tensions caused by these tradeoffs, business leaders orchestrate their business models to seek – according to company priorities, business model maturity, and market circumstances – specific exploratory or exploitative outcomes, or a combination of both. Although extant business model studies provide sensible guidelines, they cannot always accurately predict what firms will (and should) do. In our discussion, we show how managers can make sound strategic decisions regarding the tradeoffs, and indicate what key aspects drive the choice for either an exploratory or exploitative response.

2. BUSINESS MODEL INNOVATION IN THEORY

Business model innovators find new ways to create and capture value for their firm's stakeholders through introducing a new business concept in areas where competition does not act (Casadesus-Masanell & Zhu, 2013). Business model innovation (BMI) constitutes the discovery and implementation of a fundamentally different business model into an existing industry (Markides, 2006). Although BMI is more difficult to imitate by competitors than a single novel product or process innovation (Shafer, Smith, & Linder, 2005), it is also very risky because it frequently causes a major disruption that results in a clash with existent partners and vendors, requiring the establishment of new partnerships, and customer effort to understand and try-out the new product concept.

Several studies provide guidelines and rules about how managers should execute BMI implementation, and make key decisions regarding the organizational form and freedom granted to the business unit (independent versus dependent status), roadmap planning approach (discovery versus planned approach), value proposition rebellion (challenging versus conforming the status quo), and value proposition core logic persistence (solid versus fluid logic). Below, we summarize business model literature's guidelines on how to develop effective implementation strategies. We find that various authors make highly similar, unambiguous suggestions leaving little space for alternative implementation strategies.

2.1. Organizational form: Independence is key

New business model opportunities introduce a new way of earning money and drastically change the demands on resources and processes. Many failed BMIs result from the incorrect assumption that the new business would fit with the organization's current business. Business model innovators need a lot of freedom to experiment and preferably need to develop and run a new business model using a separate organization or business unit (Christensen et al., 2016; McGrath, 2010). Such freedom is necessary to self-disrupt by allowing the new unit to develop its own strategy, culture and processes without parent interference (Christensen & Raynor, 2013; Markides & Oyon, 2010). Separation also helps to create commitment among the business unit members to make the BMI a success, because possible cannibalization pressures on the established business model become less apparent, allowing for strategic freedom and greater feelings of ownership and responsibility.

2.2. Roadmap planning: Test market assumptions instead of plan ahead

Literature indicates the challenge involved in planning multiyear roadmaps for business models. Blank's (2005) statement that "no first business model concept survives the first customer contact" emphasizes that business executives should realize that the planning of new business models is extremely challenging, and that frequent adjustments along the innovation journey are needed to fine-tune business models (Sosna et al., 2010). To meet the challenge, they need to adopt a discovery rather than an analytical approach (McGrath, 2010), because planning has little added value in highly uncertain, complex and rapidly changing environments. Business units need to be agile, to experiment and quickly test the business model's assumptions via 'little hockey sticks investments' rather than making huge ex ante 'black-hole investments'.

2.3. Value proposition identity rebellion: Challenge status quo

As new business models introduce new value propositions to customers, firms need to legitimize the new and distinctive offering (Aldrich & Fiol, 1994). Customers not only need to become aware of the firm's offering, but also to understand its value proposition and how it differs from competing offerings. The firm's value proposition rebellion plays a key role in getting this message across. Business model literature often describes the advantages of being a rebel or pirate (examples include: Facebook, Uber, Airbnb) as a virtue in winning the battle against competitors, since a rebellious stance creates consumer awareness via increased public press coverage and because it helps the creator to clearly differentiate from existent offerings (Bolden, 2015).

2.4. Value proposition core logic persistence: Stick to core logic

Although an exploratory focus is recommended for the first three tradeoffs, the lion's share of business model literature suggests a contradicting, exploitative focus regarding the core logic of the value proposition. By sticking to the original logic, innovators create consistent storylines both internally and externally that inspire credibility and trust. Innovators should rigorously follow the 'simple rules' such that new efficiency-based businesses models such as Wal-Mart or Ryanair focus on realizing process innovations and unlocking capacity (Chatterjee, 2013). Whereas introducers of new perceived-value models such as Apple, Rolls-Royce or Gucci focus on maximizing product benefits to create superior customer value. Driven by the maxim that building blocks should reinforce each other, innovators are only allowed to make adjustments to this business logic under specific conditions; for instance, realizing cost reductions via process innovations are possible in perceived-value models, as long as they do not sacrifice the 'want' of customers, that is, the key product benefit (Chatterjee, 2013).

3. RESEARCH METHOD AND CASE DESCRIPTION

We analyzed the degree to which business model innovators follow the literature's implementation guidelines through an in-depth case analysis of a multiple case study. Our aim was to explore what challenges business leaders faced during implementation, and how they dealt with them. To ensure a wide variety of responses, we purposively selected exemplary cases across multiple industries. Our five cases have successfully introduced BMIs that were new to the industry in fashion, retail banking, commercial banking, healthcare insurance and the hotel booking industry. Our selected cases cover both perceived value models that offer high quality, highly differentiated offerings and efficiency-based models that focus on low-cost offerings. We selected five Dutch companies (three corporate ventures and two startups) that met the criteria of introducing a value proposition that fundamentally changed markets and initiating imitative responses from competitors, whilst generating notable news coverage.

We followed the development processes of these five new business models for over a decade and collected both retrospective and contemporary data for each case. We interviewed those, who were directly involved in the strategy development and execution, from early opportunity recognition to upscaling and adjusting the business model. All of them were CEOs, directors, or business unit managers. Interviews were semi-structured, and took 90 minutes on average. We encouraged the business leaders to engage in storytelling and describe the process from their perspective, and asked them to provide documents to back up their stories to mitigate biases. Secondary data, referring to articles, business cases, and other online resources (e.g. newspaper articles, interviews, business presentations, magazines, financial reports) were collected to verify the findings, stimulate discussion with interviewees, and to gain additional insights.

For the data analysis, we segmented the findings by the critical events of the development process and distill four strategic tradeoffs: the degree to which the business unit relies on planning versus experimentation, the degree of independence, the degree to which the value proposition challenges the status quo, and the persistence of sticking to the original value proposition.

Below, we provide a brief description of these five cases of business model innovation.

Marlies Dekkers. In 1993, CEO Marlies Dekkers, driven by her dissatisfaction with existent product offerings, started offering high quality lingerie to make women feel confident and sexy. Using professional designers, non-traditional promotion methods, and an exclusive distribution strategy, the company introduced a luxury concept in The Netherlands with average prices set about twice as high as offerings from mass producers. The concept sparked substantial imitation by competitors after 1995. From the start, Marlies Dekkers was successful – in the heydays selling in 1,200 department stores and 13 exclusive Marlies Dekkers's boutiques in more than 20 countries and promoted by celebrities such as Britney Spears, Victoria Beckham, Christina Aguilera, Katy Perry, and Rihanna. Yet, the company filed for bankruptcy in 2013 due to the numerous bankruptcies of important suppliers and retailers. Hong Kong investor Andrew Sia took over the company in 2013, and shifted the focus to generating online sales, with just 6 remaining physical stores.

ING Direct. In response to consumers' desire to use direct distribution channels, ING launched ING Direct to offer a limited set of financial products via a branchless, direct distribution channel. Since its start in Canada in 1997 as a mail and 24/7 call center bank, with Internet facilities added in 1999, ING Direct expanded to seven other countries within five years (Dunford, Palmer, & Benveniste, 2010). The no-frills financial products with limited variety were easy to understand and required little explanation from service employees. Unconventionally, it started with merely a savings account, then expanding into debit accounts, mortgages, investment and credit products. Customers received high interest rates on saving accounts due to its simplicity, low-cost distribution structure, and use of mortgage-levered instruments. Its success was rapid, generating more than €200 billion in savings in 2008 (Dunford et al., 2010). In 2008 though, it nearly led to the bankruptcy of ING, because its mortgage-leveraged investments lost virtually all of their value. In 2013, ING sold ING Direct's operational branches in many countries, though it remains active in six countries.

Fortis Venturing. Driven by the dissatisfaction with employees' low entrepreneurial attitude and wish to develop an entrepreneurial organizational culture, the CEO of the Dutch-Belgian financial service provider decided in June 2000 to develop a new platform named Fortis Venturing. This platform, launched in January 2001, promoted the development of new ventures instigated by employees in close cooperation with external parties, such as investors and end-users. It acted as a broker between firms with new business ideas and capital suppliers, such as business angels or investment companies. Employees of Fortis Venturing, organized under the heading of the human resources department, searched for business ventures to generate in 2000 additional cash flows (e.g. life insurance for dogs instigated by dog owners). By acting as a broker, Fortis Venturing created lock-in for a core group of loyal customers (capital venture seekers and service providers), with highly specific and unmet needs. The business model was new to the Dutch banking industry and relatively successful (IMD, 2003) with more than 30 business cases introduced. The concept ceased to exist in 2009, after the breakup of the bank in 2008.

Achmea Health. In response to the rising health care costs, Achmea, market leader in the Dutch insurance market, launched Achmea Health in 2000, a platform helping its clients to use preventive health services. The business model aims to lower health care costs by the prevention of diseases rather than by curing them through stimulating the vitality of clients.

The online platform offers clients information about healthy living and the possibility to order health-related products and services from dedicated partners at reduced prices. The business model connects health prevention providers, such as health centers and gyms, with insured persons. The platform is successful, realizing €15–20 million in revenues in 2010, and has a positive outlook given the growing number of contributors to Achmea Health's online platform.

Hotels.nl. In response to the growth of online bookings, startup Hotels.nl launched a booking site in 2001 to help consumers find and book hotel stays at low cost. The site facilitates and charges for the transactions between hotels and their visitors. Hotels can bid for the best-ranked positions on the website based on their willingness to pay a high commission; consumers can find the best-fitting hotel in terms of availability, location, price, hotel ratings (stars) and customer reviews. Hotels.nl was an instant success; within a few weeks after the initial launch, the website ranked in the top-3 search results of Google (The Netherlands). In 2017, the website is affiliated with more than 2000 different hotels.

4. BUSINESS MODEL INNOVATION IN PRACTICE

Our critical event analysis reveals communalities and differences in the business model execution, but also shows that each of the business leaders faced tensions regarding the four tradeoffs. Business model innovators experience tensions and at times purposefully deviate from the proposed guidelines to solve practical problems during their BMI journey.

<<<INSERT FIGURE 1>>>

4.1. Tradeoff 1: Organizational Form: Independence versus dependence

Our cases show that the disruptive and radical nature of the novel business models investigated required an independent organizational setting to support it. Although startups face great independence (the creator often is the first CEO) and are free to experiment, incumbents that create new ventures struggle with how much independence and autonomy to grant to the business unit. In the latter case, we notice that after seeking the support of the executive board to guarantee the availability of both financial and knowledge-based resources and moral support during the start-up phase, business model innovators highlight the importance of selecting a level of independence to fit the company's priorities and goals. Business model innovators are granted much independence and freedom as a license to experiment and quickly find out what customers value, but some innovators purposefully decided to maintain or strengthen the linkages between the headquarters and the business unit to establish recurrent knowledge spill-overs, to benefit from the endorsement of the parent firm and facilitate the sharing of valuable resources.

Corporate ventures, ING and Achmea, both chose to create separate business units that were geographically and contextually removed from the headquarters to develop their new businesses and thus avoid internal competition or struggles with existing business lines. The CEO of ING Direct stressed the importance of an independent status:

> *"Having an independent position was very important. If we had to rely on services and systems from another division, it would have never worked... Although we had to comply with the same standards as the entire group, we gained a lot of freedom: nobody else was to blame."*

The freedom offered by ING Direct's independence did not only increase exploration, but it also motivated employees to make the concept a success due to an increased sense of entrepreneurship, urgency and responsibility. Corporate venture Fortis Venturing also established a separate business unit to ensure the level of independence needed to challenge existing organizational structures and culture, but it did not go to the extreme as it was placed and run internally by the human resource department. The close supervision by the human resource department was needed to facilitate the desired outcome of shared, experiential learning for the business unit and parent firm, as stated by the director of Fortis Venturing:

"The choice [for an organizational form] requires a delicate balancing act. Although our business unit is distinctive from the business lines, we should also not estrange ourselves from the rest of the organization. We need the rest of the Fortis organization to grow".

Similarly, Achmea initially created a separate business unit for Achmea Health, to provide the business model innovators with the needed independence to facilitate the acceptance of the concept within the organization. After several years of moderate growth, it replaced this independence strategy by placing the business model concept closer to the parent firm of Achmea. This increased dependency between the business unit and parent firm was created, as the parent firm realized that positioning it more closely to the specific sub-brands of Achmea like Zilveren Kruis, Interpolis, Centraal Beheer, would reduce customers' confusion and uncertainty, as they were more familiar with these sub-brands than with the corporate brand of Achmea. This also helped to overcome some internal resistance and increase the support of the parent firm, because the managers of the sub-brands remained hesitant to support the concept, as it was perceived to be developed by 'outsiders'. The integration was successful as managers from the parent firm linked their existing product lines to the new platform, yielding greater network effects, and signaling the platform's strength to customers.

Although greater independence is associated with greater exploration, increased employee commitment, less internal resistance, interviewees indicated some risks to stimulating independence. A major risk of an independent development strategy is the parent's difficulty of monitoring at arm's length and the greater risk-taking tendency and strategic autonomy of independent businesses. ING did not fully realize the consequences of the greater autonomy and risk taking of ING Direct, which used mortgage-backed loans to make the high interest rates on savings accounts possible. The collapse of the financial system during the financial crisis in 2008 almost led to the bankruptcy of ING in 2009.

The level of independence – especially for incumbents – thus involves a delicate balancing act: how much freedom is needed to learn and experiment relative to the need for controlling positive knowledge spill-overs (e.g. learning experiences of the creator to the parent, and vice versa) and limiting negative spill-overs (e.g. increased risk taking, integration problems in later stages). The more disruptive the new business model is, the greater the internal resistance will be as the new activities are not complementary to and in conflict with existing capabilities, and the stronger the need for independence, freedom, and tolerance for mistakes to develop such new skills. Still, when firms want to have control over the development of the business model, dependency is needed.

4.2. Tradeoff 2: Roadmap planning: Discovery versus planned execution

Given the risky and unpredictable nature of BMI, business models innovators generally follow the advice to not plan and lay out a fully blown strategy, but rather quickly test the underlying business model assumptions in the market. Innovators appear to be driven more by *ex post* trial-and-error rather than *ex ante* foresight, as migration paths result from and evolve through interactions with the environment. Our cases support the notion of necessary changes to the business model and the need for trial-and-error and quick learning, but also show that business leaders rely on some *ex ante* foresight and do not only rely on the lessons learned from *ex post* experiments. Especially in situations where the BMI is based on external developments that are, to a certain extent predictable, managers can benefit from an *ex ante* preparedness that steers the learning experience to learn from specific market experiments and trends, and provides the opportunity to migrate clients to new value propositions.

In line with literature's prescriptions, Marlies Dekkers launched her new retail concept of high quality lingerie and adjusted her business model immediately after launch to improve perceived value (in terms of designs and marketing) after getting feedback from the market. Hotels.nl operated in a quickly changing and hypercompetitive environment, and actively deployed experiments to fine-tune its business model. The online environment provides an excellent test bed to assess what works (or not) ex post. The trial-and-error procedure is most effective when the market is volatile and unpredictable; when conditions are uncertain, when market needs are difficult or costly to assess upfront; when market needs can be easily retrieved via real-life experiments. However, planning helps in markets that are predictable to some extent. For instance, ING Direct tested – to reduce early information leakage to competitors about their intentions – market assumptions via market research, to confirm their expectation that clients were in need of simplicity and convenience offered by self-service and direct distribution channels. As ING Direct was aware of the radical nature of the concept and the difficulty of changing customer habits, it devised a roadmap to overcome clients' lack of trust in its branchless online bank, via facilitating change in small, incremental steps. Although ING Direct knew that customers' access to broadband and use of online shopping would increase, it also realized that the market would not immediately embrace the concept of a pure online bank, because consumers lacked sufficient familiarity and trust. In response, it only gradually replaced its service employees active in Internet cafés, with automated online banking systems, to increase customers' levels of familiarity, learning, and trust in its online systems. By temporarily spending extra resources on service employees, ING Direct migrated its clients to the new channel and value proposition. All in all, business leaders select a discovery approach to launching their concepts, when market and technological uncertainty are considered high, and when flexibility and learning to do the job are key, but when markets are more predictable and stable, executives oust the flexible trial-and-error method by planning to achieve greater efficiency and control over the activities to execute the BMI.

4.3. Tradeoff 3: Identity rebellion: Challenging versus maintaining status quo

To overcome the liability of introducing a new concept (Aldrich & Fiol, 1996) and to differentiate the offering from existent offerings, business model innovators take a daring position that challenges the status quo. Our cases demonstrate that firms, and in particular startups, have greater flexibility in taking on a rebellious position to clearly differentiate the concept from existing offerings. When the scarce-resource startup, Hotels.nl, entered the online hotel booking market, the firm encountered competition from Expedia and Booking.com (the latter being owned by Priceline). The small-scale startup took an aggressive stance by letting each hotel bid for the best position on their website, while incumbents secured long-term contracts offering little flexibility in timely price discounts. The quote from one of its co-founders addresses the rebellious stance:

> *"We [as a startup] were highly flexible and could pursue strategies that large and old-fashioned firms could not imitate. We challenged the [hotel] industry that used to be controlled by them, and they did not know how to react. Our platform actively stimulated competition among hotels, and we as a smaller player were able to achieve price premiums twice as high as standard premiums."*

The rebellious nature of Hotels.nl also proved to be successful through applying unorthodox marketing tactics. The startup promoted its booking site by equipping sheep, which were next to a highway, with jackets with the company name on it. After the mayor of a local village prosecuted Hotels.nl for animal abuse, the court ruled a fine of €500 per day with a maximum of €20,000. Rather than adhering the court ruling, the startup decided to further increase the number of sheep and pay the marginal fine. This unethical move helped Hotels.nl win an advertising award for best media stunt and dramatically boosted company awareness. The co-founders argued that larger firms would refrain from such behaviors as it would seriously harm their image and reputation.

At the same time, business model innovators – especially those in which customer trust plays an important role – warn that rebelliousness can be harmful. Although the concept of ING Direct was strikingly different from traditional banks, the executive board purposefully decided to not position the concept as fighting against existent bank offerings to ensure its legitimacy as a valid and trustworthy bank, thereby balancing between differentiation and conformity. ING Direct considered that a value proposition that questions the existent rules of conduct may be counterproductive through reducing the concept's legitimacy, increasing complexity and lowering customer trust.

A lack of rules about how to play the game in new and emerging markets contributes to the ability to leverage rebelliousness. More mature markets with stronger social norms about acceptable behaviors may, however, seriously limit the appropriateness of such a rebellious stance.

Tradeoff 4: Value proposition logic persistence: Solid versus fluid logic

Our cases show that managers of new business models often struggle with sticking to the initial value proposition logic, and adjust their initial value proposition – knowing that such changes undermine message clarity to their clients and other stakeholders.

We find that BMIs often change and do not necessarily take off or remain in a pure form – focusing on either differentiation or cost efficiency – but that they may also reach such a pure form in later phases (see ING Direct), or make adjustments to end up in hybrid forms combining high quality with an affordable price (see Marlies Dekkers), or are pressured by new legal regulations to find other ways to differentiate (see Hotels.nl). Although exploration or altering the business model becomes harder over time, fluid logics can appear an effective – and sometimes necessary – answer to changing market conditions.

<<<INSERT FIGURE 2>>>

Business model innovators make conscious decisions about when and how to change the value proposition logic of their business model. ING Direct aimed at establishing an efficiency-based business model, but its early recognition that customers would not immediately switch to online banking necessitated the choice of a temporary business model focused on added value using the costlier service employees, and Internet cafés. ING Direct strategically altered its value proposition over time and adjusted its business model in incremental steps towards efficiency. By allowing clients to familiarize themselves with and trying out the online channel, it was able to effectively migrate its clients from the more expensive branch channel to the low-cost internet channel. Although Marlies Dekkers started in a pure value form focused on maximizing perceived value, the firm was later forced to switch to a mixture of value and efficiency, because the high-cost business model was no longer sustainable due to fierce price competition of imitating competitors. To survive, Marlies Dekkers lowered its perceived value proposition by fabricating its lingerie in low-cost countries, using somewhat lower (perceived) quality materials. Hotels.nl grew strongly as low-cost platform, but new European law regulations regarding price parity caused them to find other ways to differentiate offerings and add customer value. The booking site decided to add additional services offerings using new partners (car or bike rentals, museums, and spas) to provide unique bundles (theme weekends) of overnight stay offerings.

Although a solid value proposition seems expedient for a new business model to come into existence and to provide a clear and understandable value proposition to customers, in practice firms may initially rigorously implement the simple rules, while subsequently allow for conscious adjustments of their business models indicating a more fluid stance to ensuring long-term viability or to reflect on their previous plans for changes.

5. SUMMARY OF FINDINGS

During implementation, executive managers are confronted with four strategic tradeoffs relating to two overall conflicting organizational goals: need for efficiency (to achieve economies of scales) and need for exploration (adapt concept in response to changing organizational priorities, markets, and technologies). Each of the extremes of the axis either favor exploratory (independence, discovery approach, challenging status quo, flexible logic) or exploitative (dependence, planned approach, maintaining status quo, fixed logic) strategies that, in turn, yield specific (dis)advantages (see Table 1). To help business model innovators answer the fundamental question: "how much exploration or exploitation is needed to implement the business model at each development stage?", we break the fundamental question down into four guiding questions covering four topics of interest. Table 1 also includes the recommended actions for business model innovators to take based on specific external (market or industry), internal (firm) conditions, and business model characteristics (see last column).

<<<INSERT TABLE 1>>>

Is flexibility in thinking and actions favored over control and structure?

To determine the degree of flexibility needed, smart business innovators should assess the degree of market dynamics, and in particular the unpredictability of customer and technology developments. Naturally, at the early stage of the BMI journey, when uncertainty about market reactions and technology development are abound, exploration and autonomy are essential to meeting customer needs and updating the business model. Independent structures provide business units with the required organizational discretion and freedom to explore and experiment, enhance employee commitment, and reduce internal conflicts with the established activities of the parent firm. Also, when the BMI is disruptive to the parent firm, business model innovators need to be independent and distanced from the parent firm to be agile and develop their own dynamic ability. Business leaders may, however, decide to limit independence when they want to facilitate future organizational integration, or search for (mutual) knowledge spillovers between the parent and innovating business unit. Platform-based BMIs such as Facebook, Uber, Airbnb and Google, and in the present study Achmea Health may particularly benefit from increasing the dependency of the business unit with the parent because it facilitates the sharing of an important resource: the installed base of customers to stimulate network effects.

Do the benefits of planning outweigh the loss in flexibility and market learning?

Smart business leaders study the market and concept characteristics in great detail to determine whether and when to rely on planning or trial-and-error discovery. In highly dynamic markets characterized by quickly changing customer needs and technological developments, executives should prioritize experiential (trial-and-error) over structured (planned) learning as this helps to efficiently and quickly obtain and update new knowledge on how to exploit disruptive technologies and market opportunities. A discovery approach is preferred when executives can quickly test market assumptions and learn via experimentation with limited resource endowments. Discovery techniques help to quickly determine the fast changing consumer needs (e.g. what kind of aesthetics the market wants, like Marlies Dekkers assessed via tracking product sales); something which is more difficult and time-consuming to assess via survey research or test labs. The continuous testing of market assumptions and subsequent updating of the business model ensures the development of client-driven business models and dynamic capability development, in order to both "read" and "shape" the business environment (Teece, Peteraf, & Leih, 2016). Though, in most circumstances (even before launch) innovators, like ING Direct and Achmea Health, are able to predict part(s) of the business model's assumptions or project market or technological developments, such as the advent of direct distribution, and growth of health care costs. When innovators value control and make smart use of projections, a planned, top-down execution may lead to knowledge and speed-to-market advantages, help customers to familiarize, in incremental steps, with new value propositions and breakthrough products.

Do differentiation benefits outweigh additional costs of attaining legitimacy?

Smart business executives should determine the optimal level of rebelliousness needed for their business model and balance the need for differentiation and legitimacy in time. For new entrants, which may not have deep pockets, the development of rebellious business models can be highly effective, while for reputable and risk-averse firms the use of rebellion is more restricted. A rebellious stance leads to greater ability to differentiate, but may come at the cost of identity conflict, and create conflicts with existing industry norms that hamper the establishment of partnerships. A rebellious stance is particularly effective when breakthrough or disruptive business models are developed that change or contest the rules of the game such as Uber (taxi industry), TiVo (in television broadcasting) or Airbnb (hotel industry), since business leaders then have a license to challenge industry norms, experiment freely, draw public attention, and capitalize on the buzz generated. Our cases indicate that the appropriateness of rebellion is contingent on the industry's and business model's maturity. In new and emerging industries or market niches, customers may be drawn to challengers, as the rules are not yet set. But, as industries or disruptors become more mature and mainstream or when industry norms are strongly followed, business model innovators often need to temper their rebellion to serve the more conservative mainstream customers; hence, innovators should ask themselves whether the differentiation benefits outweigh additional costs of attaining legitimacy to determine the balance of differentiation versus conformity over time.

Is efficiency or flexibility in execution favored?

Despite the inherent force to generate reinforcing building blocks to create consistency and exploit the BMI in a predictable and efficient manner, all of our cases strongly adjusted their value proposition by updating their BMI in response to internal or market developments (see Figure 2). Hence, business executives should continuously monitor the development of the business model concept in relation to market developments to determine when and how to update their model business model. When markets are more dynamic or when disruptors enter the market, it will be more difficult to stick to the (original) value proposition, as changes are needed to respond to pervasive market and technological developments. It is apparent from our cases that the replicability or scalability of the concept (for example, as apparent for platform players like Amazon or franchise formulas such as McDonalds, or as in our case ING Direct) facilitates a lock-in to a solid (efficiency) value proposition, as it increases the efficiency gains of early standardization. Such cost leaders should realize that changing the business model will become more difficult as the concept matures, because interdependencies between the individual elements of the business model grow and harden over time (Christensen et al., 2016). Therefore, business leaders should not only look at the short-term benefits, but realize that – when developing a roadmap balancing exploration versus exploitation across the BMI stages – decisions are path-dependent and can have long-term consequences, to the extent that even small changes can have huge consequences. A strategic dialogue of executives and managers with internal and external stakeholders can be helpful to remain flexible and reveal the interests and points of view of these stakeholders to anticipate future adaptations during the BMI journey.

This study analyzed how business executives react to exploration-exploitation tradeoffs, and for what reasons. Although business model theory prescribes a clearly one-size-fits-all solution to all business model innovators, the diversity of responses to these tradeoffs as well as the changes made during the journey, show that executives may deviate from the propagated guidelines for good reasons. Executives make deliberate decisions on key topics in search of specific exploratory or exploitative advantages. Their implementation decisions are not always in line with the business model literature’s prescriptions, but are not just simple anomalies: often these deviations can be explained by their organizational priorities, business model characteristics, or market developments. We hope that our work will invite more research to increase understanding of how business model innovators react to specific challenges experienced during business model implementation, and what drivers may influence these reactions.

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Table 1: Business Model Innovation Implementation Tradeoffs

TRADEOFF: Exploration	TRADEOFF: Exploitation	KEY QUESTION	RECOMMENDED ACTION
Independent + Greater exploration + Increased employee commitment + Fewer internal conflicts + Low public and shareholder scrutiny	***Dependent*** + Greater endorsement and resource sharing with parent firm + Easier creation of knowledge spill-overs and synergies with parent firm + Greater control over concept development + Lower failure risk future integration	Is flexibility in thinking and actions favored over control and structure?	*In favor of independence:* Uncertain markets; business model's disruptiveness (relative to parent's activities) *In favor of dependence:* Need for future integration; Platform-based business models to benefit from installed base of parent firm
Discovery + Quick adjustments and experiential learning + Outside-in approach guarantees value-based business model based on customer demands	***Planned execution*** + In-house knowledge development and market lead time + Lower risk of launching immature concept + Possibility to migrate clients to new value proposition	Do benefits of planning outweigh the loss in flexibility and market learning?	*In favor of discovery:* Dynamic markets *In favor of planned execution:* Need for speed-to-market; need for migrating customers to disruptive business model
Challenging status quo + Unique, distinctive market positioning + Greater legitimacy to engage in norm-violating behaviors + Greater public attention	***Maintaining status quo*** + Easier to convince stakeholders and attain market acceptance + Greater compatibility with customer values	Do differentiation benefits outweigh additional costs of attaining legitimacy?	*In favor of challenging status quo:* New markets, limited cash position; strong rebel-disruptor fit *In favor of maintaining status quo:* Strong industry norms
Flexible + Greater flexibility in adjusting the value proposition to market (technology, consumer, competition) and internal changes	***Solid*** + Message clarity to stakeholders + Better value capture logic due to greater consistency and reinforcement of building blocks	Is efficiency or flexibility in execution favored?	*In favor of flexible logic* Pervasive market or internal changes *In favor of solid logic:* Business model's replicability/scalability

Note**:** Shaded areas correspond to the propagated guidelines by the business model literature.

Figure 1: Four tradeoffs during business model implementation

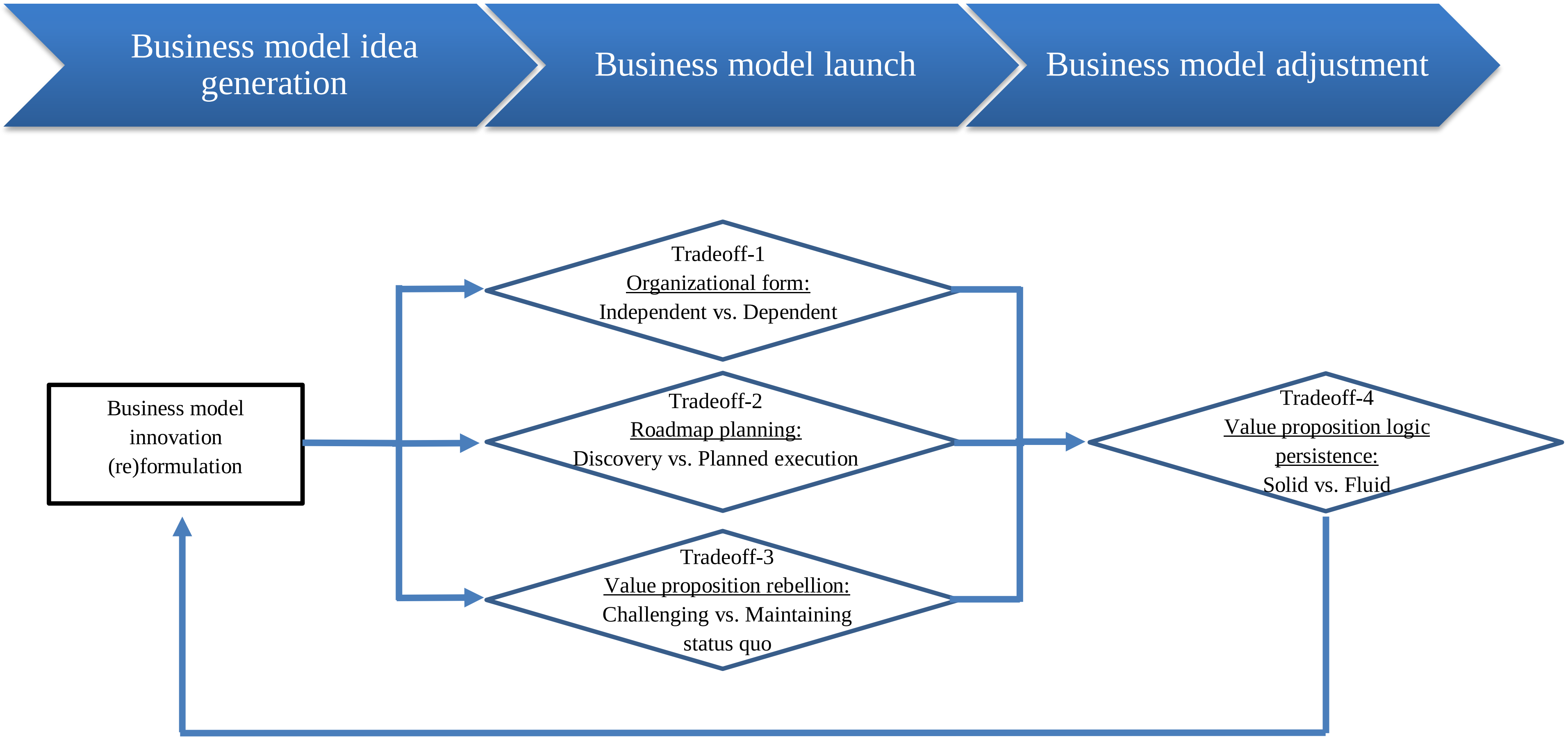
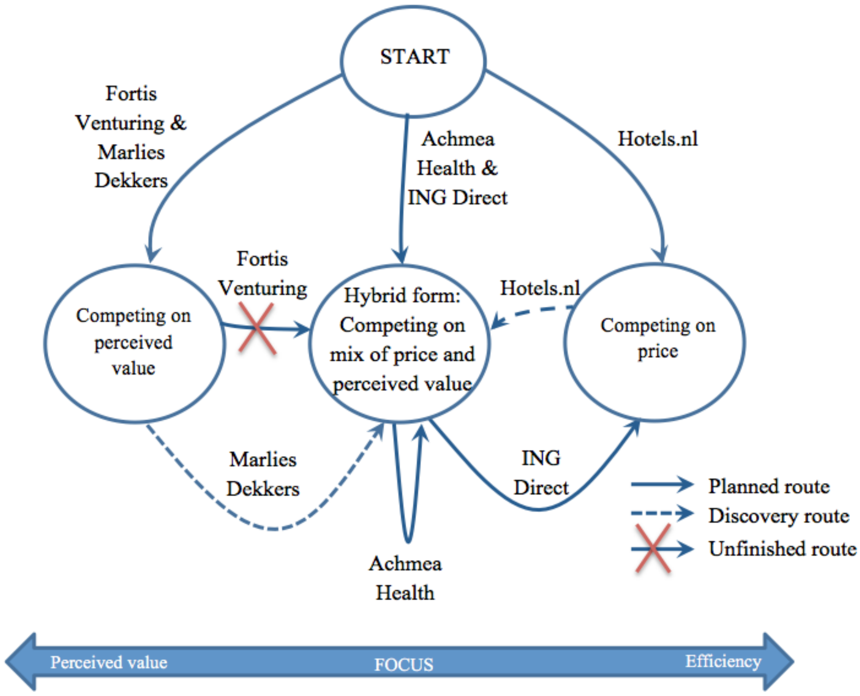


Figure 2: Development of value proposition logic



Callout:
ING Direct started in a hybrid form combining a low-cost online channel with high-service channels using Internet cafés and service employees, but followed a planned route towards a pure efficiency online model. Marlies Dekkers started in a pure perceived value form, but had to adjust the pure perceived model after increased competition. Fortis Venturing started in a pure perceived value model and planned to deliver both high value and low prices, but stopped prematurely. Achmea Health started in a hybrid form and attracted a high number of suppliers and consumers in order to maintain the delivery both high value and low price. Hotels.nl started with a focus on price, but due to new law regulations, shifted its focus on a mixture between low price and perceived value by offering unique service bundles in collaboration with new partners to differentiate the offering.