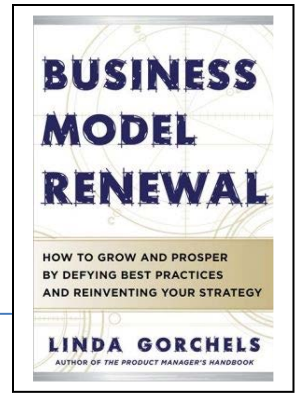

Prologue

Business Model Renewal by Linda Gorchels

Do the following events indicate the end of "business as usual?"

- A recent statement on the home page of the Sony cassette Walkman indicated that its production is finished – more than 30 years after its debut in 1979.

- Wal-Mart has ended its strategy of using DVDs as traffic drivers – due to the impact of video-on-demand and Redbox kiosks.

- Advertising revenue is slowly moving from "traditional" media to digital media, having a significant impact on the survival of numerous magazines and broadcasting companies.

- At one time General Motors attempted to have separate brands "for every purse and purpose." But after reducing its portfolio – shedding Oldsmobile, Pontiac, Saturn and others – it is left with four brands (Chevrolet, Cadillac, Buick and GMC) and a reduction in the number of models.

- According to BankruptcyData.com, of the 20 largest public company bankruptcy filings in the last 30 years, 17 have occurred since 2001.

Yes, the end of business as we know it has been forecast many times. Many industries and approaches have indeed become obsolete. But companies continue to succeed and fail, innovate and degenerate, grow and decline. Is there a "secret" to success? Is it the business model … or the strategy … or the leadership … or the knowledge … or just being at the right place at the right time?

Obviously, all of these factors play a role – or stated more accurately, the factors play different roles under different circumstances. But before I get into the contextual differences I want to take a step back to look at terminology. It's interesting to listen to people defining the various terms related to business strategies and models. Even within the same company what one individual calls a business model another calls a strategy; what one calls a strategy another calls a tactic; what one calls a vision statement another calls a mission statement; what one calls leadership another calls management. There are no perfect or foolproof definitions. In theory and in practice the terms are used inconsistently. The only time the different definitions are troublesome is when they cause a breakdown in communication due to fundamental misinterpretations.

Nevertheless, as a starting point, I'd like to define these terms, while being fully aware there will always be variations in meanings as circumstances and cultures change. There is no solid line separating a business model and a strategy – it is more of a continuum – and in the book I will often be referencing the gray area in the middle. Similarly, goals can blur into objectives and strategies into tactics. So keep in mind, this is just a starting point.

Business model:	The totality of how a firm produces value—including strategy, organizational design, infrastructure, culture and operational processes. It implicitly takes into account the ability to profitably execute strategy, and is consequently broader and more comprehensive than a strategy. When Eastman Kodak, over the past couple of decades, shifted the emphasis of its business model to digital cameras and accessories, it was really a change in DNA for the company. It competed not just with a different product strategy, but through a different way of doing business (even though still delivering on the "Kodak Moment"). But the change was not enough to avoid bankruptcy.
Vision:	A fuzzy representation of a future state – what the firm aspires to become. It is a theme, a direction that should be infused throughout the business models, strategies and plans. It is an indistinct (yet comprehensible) goal that might or might not be actually accomplished. Some companies refer to a vision statement as analogous to the beginning of the president's letter to shareholders in a future annual report.
Mission:	A firm's reason for existence; its core purpose. It often states the essential values and philosophies of a company.
Goal:	The desired end-result of a plan (the long-term *what)*, generally a broad indication of a firm's direction. It is more specific than a vision and is more of a "promise" intended to be attained. (Visions are generally higher-level aspirations.)
Strategy:	A long-term plan of action to achieve a goal (the long-term *how*). From a military perspective a strategy is often considered the plan to win the war whereas tactics are considered the actions taken to win a battle.
Objective:	The desired end-result of a short-term plan (the short-term *what)* to move toward the long-term vision and goals. An objective is generally more specific and concretely measurable than a goal, and should link annual plans to long-term strategic plans. It answers the question*: what am I going to accomplish this year to move closer to the long-term goal from where I am right now?*
Tactic:	A short-term action or activity to achieve an objective (the short-term *how*). Some tactics are proactive and some are reactive, addressing current environmental realities that might not have been clear at the time a strategy was developed.

Leadership: Guidance through directional changes. According to John Kotter: *"Leadership and management are two distinctive and complementary systems of action. Management is about coping with complexity. Leadership is about coping with change."* Based on this depiction, solid leadership is critical in leading a change to a new business model (or strategy) and management is required to implement the complexity of the change.

Management: Administration of complexity. It involves planning, budgeting and controlling. While there is overlap between leadership and management, the first deals more with alignment and the latter with execution. Management is more about the day-to-day activities of getting work done.

Strategic foresight: The ability to monitor key, relevant trends in a way that enables awareness of multiple plausible futures. This may include scenario planning, systems thinking and other tools.

Culture The collective "personality" of an organization based on its core values, work philosophies, and expectations of managers and employees. The ability to shift strategies and/or create new business models will be made easier or more difficult based on the fit with the culture.

Change management: An approach to leading and managing the efforts to transition a firm through disruption – from its current state to a desired future state.

Disrupted: Thrown into turmoil. Business models (and strategies) can be thrown into disruption by a host of external factors including new technology, shifts in customer behavior, macroeconomic downturns, or even new competition. Organizations (and their leadership) must decide how to continue to grow or progress in the face of these potential disruptions.

The September 26, 2007 Wall Street Journal carried an article about the book, *From Higher Aims to Hired Hands*, by Harvard Business School professor, Rakesh Khurana. Prof. Khurana argued that business schools "have lost track of their original mission to produce far-sighted leaders ... and the logic of stewardship has disappeared." The book posits that "panoramic, long-term thinking has given way to an almost grotesque obsession with maximizing shareholder value over increasingly brief spans." That fact, along with dramatic economic and technological changes, makes it critical for companies to reassess their business models and growth strategies.

Growth (or progress) does not resemble a staircase as much as a switchback road. Opportunities and threats will be hidden in plain sight, and some will be seemingly contradictory. Yet, firms must be open to ongoing transitions in the marketplace and to changes in customer behavior. For example, how many people *listen* to books and *read* cell phones? A handful of relatively simple events like these can change your business (and even your life).

A decision has great merit when it is based on knowledge of both potential *future* consequences and collaborative *current* events. Executives are faced with numerous business decisions that require sacrificing either long-term results or short-term gain. A single decision, in other words, can become a catalyst for a variety of outcomes. Just as adding a domino to the "right" set-up of blocks and giving a gentle push can cause them all to tumble – a chain reaction often referred to as *the domino effect* – a current decision can have a long tail of results.

The reverse is also true. Carrying the domino analogy one step further, a set of dominoes will <u>not</u> fall down if one or several pieces are missing – an obstructed chain reaction I refer to as *the domino* ***defect.*** In other words, a current strategy or business model can fail if a necessary requirement is not in place. The implication: decision-makers must learn how to think broadly to assess when the timing is right to execute a particular strategy and/or move to a different business model.

It will become clear that recreating the wheel is usually not necessary in business rethinking. There are a tremendous number of tools that can be used, but not all tools are appropriate for all jobs. So, let's roll up our sleeves and take a look at the myths and realities of strategies and business models … and what it means for your business.