Quick Reference Guide

Business Model Innovation

Using Odyssey 3.14

Push the Envelope

- Reach further -

Business Model Innovation

"Business model innovation is the development of new, unique concepts supporting an organization's financial viability, including its mission, and the processes for bringing those concepts to fruition."

Business Model Innovation

Business model innovation (BMI) is an iterative process that partly relies on theoretic discussions but to a larger extent is a practitioner sport. It lends itself both to changing existing business models as well as when creating brand new ones.

It encompasses both the value proposition side, (i.e. **what** are we offering to **whom**) and the value architecture side, (i.e. **how** do we provide this).
Thirdly, it describes the economics driven by the two first parts, (i.e. revenue, cost and capital employed).

Business Model Innovation

To work in a structured way with business model innovation you normally use templates such as Business Model Canvas and/or guidelines such as Odyssey 3.14.

This is a short reference guide of the latter one and assumes that you build from an existing business model.
It will however also be applicable when setting up a brand-new business.

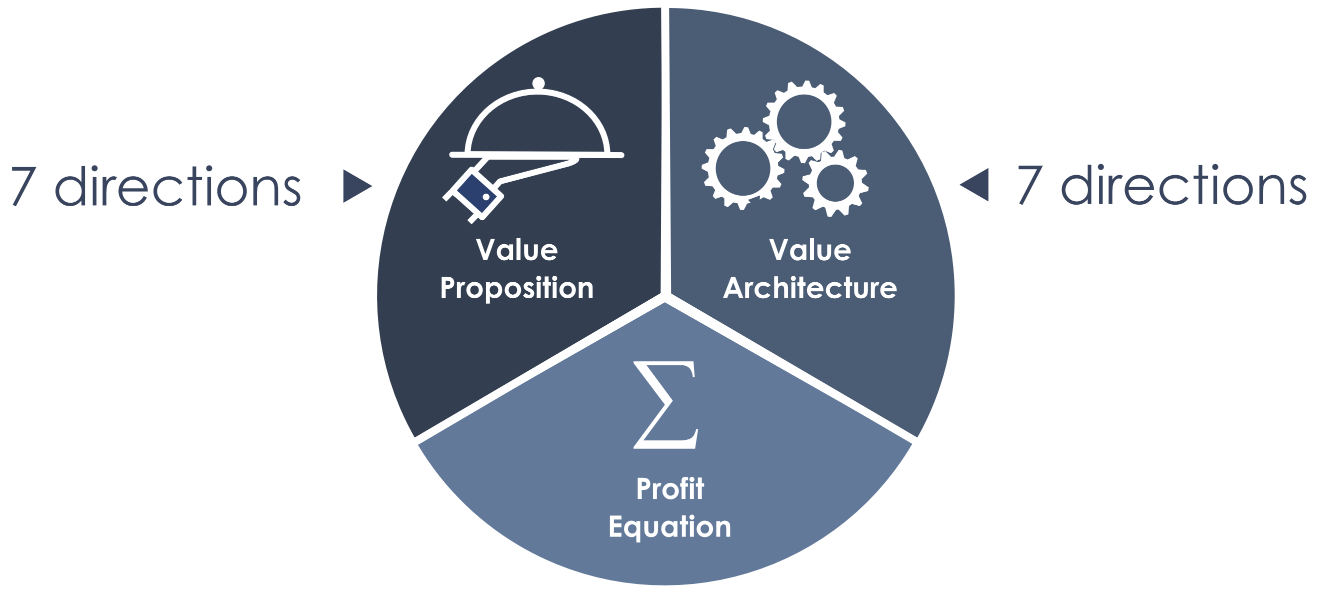
Note that since BMI is an iterative process it is advised to work back and forth between the different tools described.

Odyssey 3.14

The Odyssey 3.14 approach to invent or reinvent a business model was developed at HEC Paris after over 15 years of research, consulting and teaching.

Odyssey 3.14

Odyssey 3.14 is based on 3 pillars: **Value Proposition**, **Value Architecture** and the **Profit Equation** where the two former drives the latter one.



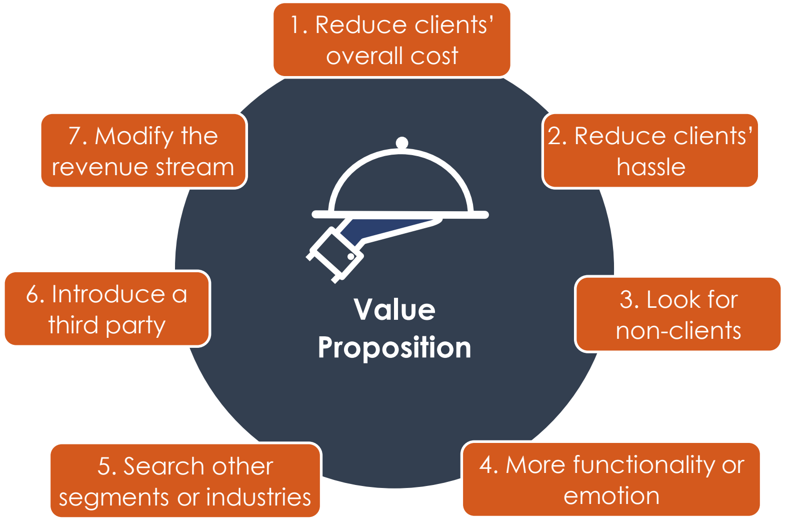
The three pillars

When working with the model you explore in 14 different "directions" to find areas for innovation. Seven for the value proposition and seven for the value architecture respectively. For each direction there are a number of questions to consider.

Value Proposition

"A value proposition refers to the value a company promises to deliver to a customer should they choose to buy their product."

In order to innovate on your value proposition, explore each of the seven directions.



1 Reduce clients' overall cost

Cost of selecting, cost of acquiring and after sale cost.

- Can you strip down your offer to lower your price for the client?
- Can you offer a part of your product or services for free as to increase volumes? (freemium)
- Can you reduce peripheral costs incurred by clients?

EXAMPLES: Ikea, Ryanair, Spotify (freemium)

2 Reduce clients' hassle

- What product or services do clients use in addition to your own?
- What are the constraints or complications your clients encounter when using your products or services?
- How can you minimize these complications?

EXAMPLES: Netflix, Tetra Pak

3 Look for non-clients

What pushes potential clients to refuse or ignore your offer?

- Where do they go?
- What do they do?
- What are the elements of your offer about which customers are disappointed?

EXAMPLES: Hotel Formule 1, Metro

4 More functionality or emotion

- Is your product or service essentially functional or emotional?
- How can you add a positive emotion to it?
- Or, how can you return to its basic functions by removing its emotionality?

EXAMPLES: Starbucks, Tesla Motors

5 Search other segments or industries

- What are the different segments of your business sector?
- What are the codes, rules and propositions of other segments that you could integrate into your value proposition?
- What other business sectors could inspire you?

EXAMPLES: Cirque du Soleil, Swatch

6 Introduce a third party

- Could you identify a player that would be interesting to put in touch with your own customers?
- For whom could you act as an intermediary?
- Could your assets belong to a third party?

EXAMPLES: AirBnB, Über

7 Modify the revenue stream

- Could you invoice your clients differently?
- What third parties would be interested in financing all or part of your offer?
- Does your offer allow your clients to save money or generate extra income?

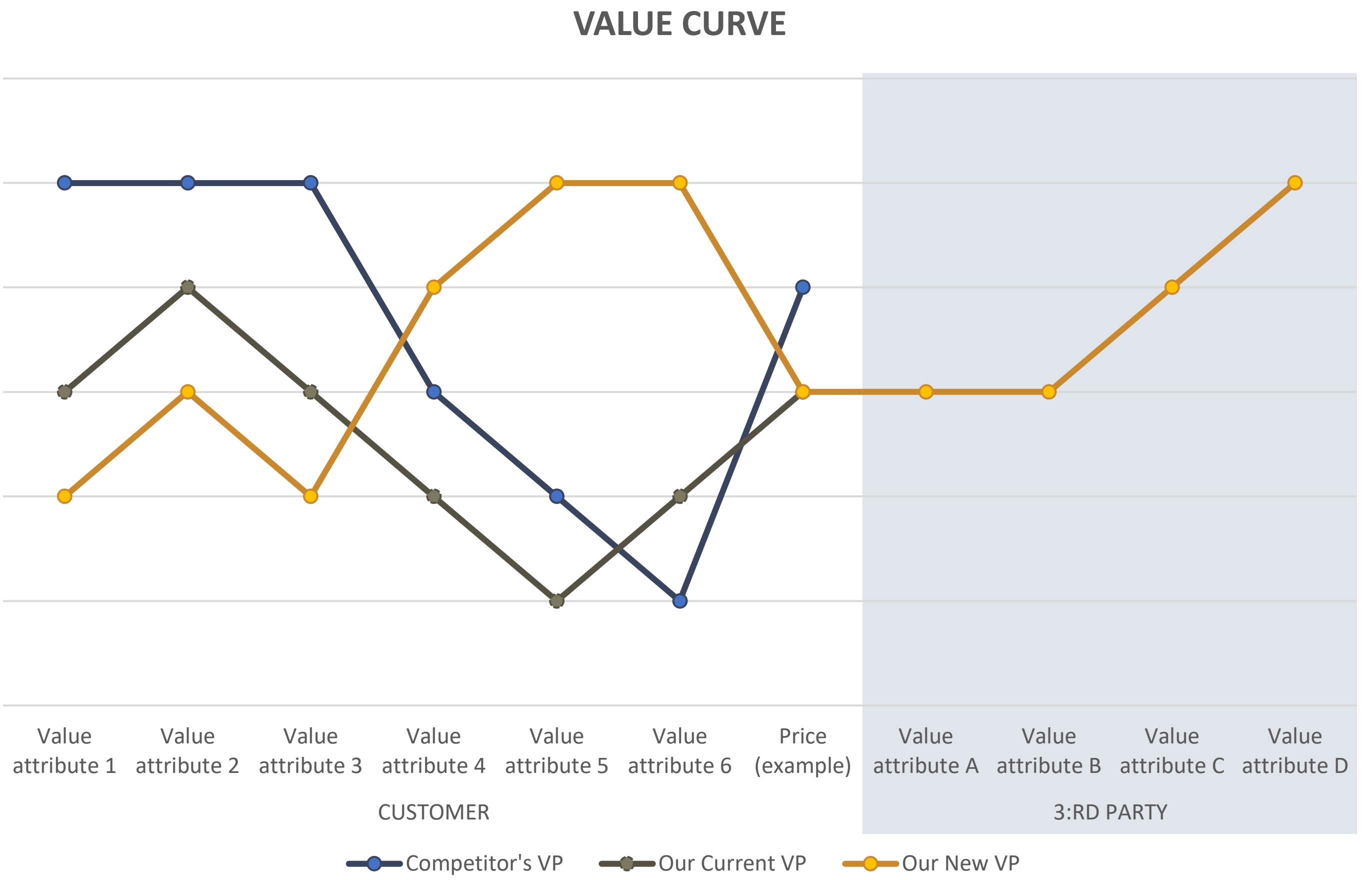
EXAMPLES: Google, JCDecaux

Value Proposition

The Value Curve is a diagram for a product or service that shows where value is created. It's a great tool for comparing different offers and to create new market spaces, (Blue Ocean strategy).

Value Attributes are factors of competition as seen by the customer.

The Value Curve was introduced in Blue Ocean Strategy (2004) by W. Chan Kim and Renée Mauborgne.



Example:
The existing value propositions (our and competitor's) are dominant on the first three value attributes (VA 1-3). Here the new value proposition is subpar but instead it excels on value attribute 4-6.

Also, in this case the new value proposition creates value for a 3:rd party, (see Direction 6).

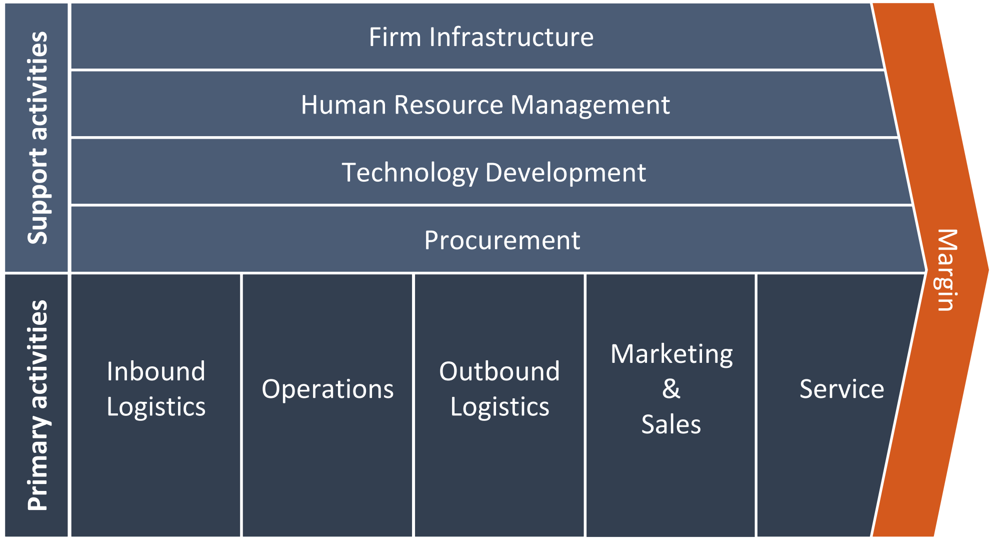
1. List all relevant value attributes.
   Note: include all customers and/or relevant 3:rd parties.
2. Assign the corresponding value (seen by customer) on each value attribute for each offer. The goal is to define a new offer with a unique and disruptive value proposition.
3. Draw a value curve for each offer.

Value Architecture

"The value architecture describes a company's strategic resources, key competencies and activities needed to provide its Value Proposition."

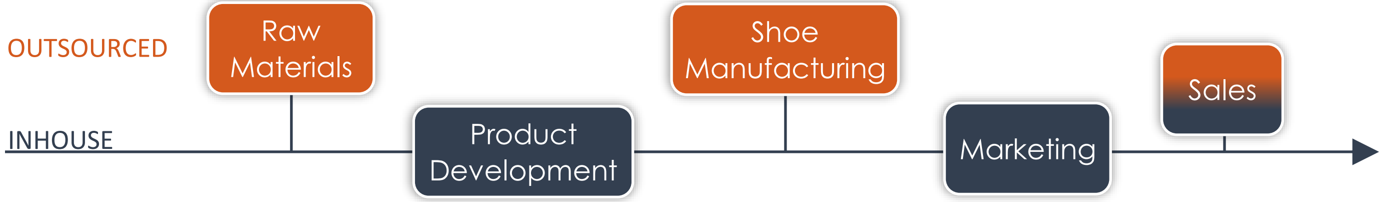
The Value Chain

The value chain is a description of a company's main internal activities together with the value network linking its suppliers, needed to fulfill the value proposition.



Traditional model of the value chain as depicted by Michael Porter. Activities are divided into Primary activities and Support activities.

The value chain is normally constructed on the "business unit level" and is based on a process view of the company with inputs, transformation processes and outputs.



Example (NIKE, top level): Nike has outsourced a big part of the value chain, keeping only product development, marketing and parts of the sales (through 'Nike Stores') inhouse.

Value Architecture

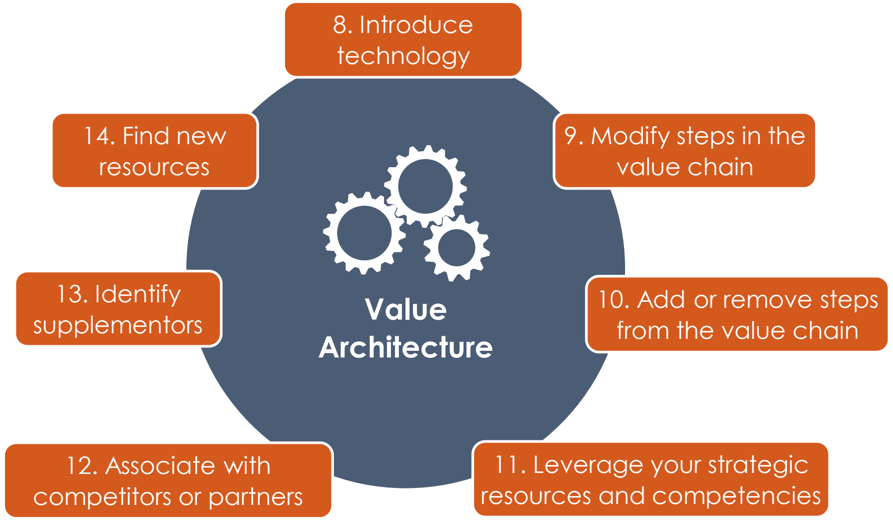
Strategic Resources and Key Competencies

Resources are assets owned by the company. They can be divided into three major categories; tangible resources (financial and non-financial), intangible resources (e.g. patents, brand) and human resources. Strategic resources are those that are crucial for delivering on the value proposition.

Competencies are organizational by nature and encompass knowledge, skills, attitudes and values. Strategic resources and key competencies can be seen as the root of a tree where the branches and leaves represent the company's products and services. Like in the tree metaphor, resources and competencies need to be nurtured. In this case, by devoting funds and management focus to conserve and develop them.

Value Architecture

In order to innovate on your value architecture, explore each of the seven directions.



8 Introduce technology
- Do your competitors use a technology that you could integrate?
- What are the existing technologies in other sectors that you could use?

EXAMPLES: Netflix, Skype

9 Modify steps in the value chain
- What are the different activities of your value chain?
- Can you change or redesign the way you bring each activity into play?

EXAMPLES: Wikipedia, Salesforce

10 Add or remove steps from the value chain
- How is this step in the value chain useful? Can you eliminate it? What will the impact be in terms of cost and therefore price?
- Could you add a step to the value chain? What would the result be? Would it lower the costs? Would it bring value to the client?

EXAMPLES: Ikea, Kilimo Salama

11 Leverage your strategic resources and competencies
- What are your strategic resources?
- What resources do you under-exploit? Could you promote them in another way?
- Do you have know-how that could be of interest to other companies?

EXAMPLES: LinkedIn, Michelin Fleet Solutions

12 Associate with competitors or partners
- Who are your competitors?
- What are their strong points? What are their strategic resources?
- How are these advantages or resources complementary to yours?
- How can you associate your strengths and neutralize your weak points?
- Can you change the working relationship between yourself and your suppliers? Your clients?

EXAMPLES: TED Conferences, Google Earth (Google/NASA)

13 Identify supplementors
- What offers are used by your clients before, during and after your own offer?
- Can you integrate these offers into your value proposition? What would be of interest to clients?
- What would be of interest to the company providing this complementary offer?

EXAMPLES: GoPro/Red Bull, Bilia/Volvia

14 Find new resources
- How can you enlarge the base of your tangible resources and intangible resources?
- What can you find by looking far from your usual base of resources?

EXAMPLES: AirBnB, Lego Ideas

Profit Equation

The profit equation is the financial interpretation of the first two pillars of the business model.

Revenue is the outcome of a successful customer value proposition.

Costs and capital employed reflect the value architecture.

$$\text{ROCE} = \frac{\text{Operating result (OR)}}{\text{Capital employed (CE)}}$$

OR:

$$\text{ROCE} = \frac{\text{Revenue - Costs}}{\text{Fixed assets – WCR**}}$$

OR:

$$\text{ROCE} = \text{Operating margin} \times \text{Turnover of capital}$$

$$\left(\frac{\text{OR}}{\text{Revenue}}\right) \qquad \left(\frac{\text{Revenue}}{\text{CE}}\right)$$

ROCE is increased by:

- increasing revenue
- reducing costs
- reducing fixed assets
- reducing the WCR**
- improving the operating margin
- Increasing the turnover of capital employed

*ROCE = Return on capital employed
**WCR = Working Capital Requirement [Accounts Receivable + Inventory + Prepaid Expenses] - [Accounts Payable + Accruals]