Case Study

The Move to 22nd Century- A Quest for Viable Transformation

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Case Vignette

Business Management students are constantly molded towards understanding that organisations are more than just a 'calm water simile', and as Stephen Robbins puts it in his book, it's more of a 'rough water simile'. Organisations are constantly changing and facing new challenges, by constant improvisation and market competition. The entire 21st century was shaped through the lacunae and constant developments from nineteenth century scenario.

So, now we are at the pedestal of entering the next century and already we are witnessing the last century's developments become rudimentary. We are now subjected to understand the new concept of 'Business Ecosystem'. As the shape of competition and markets are changing through the change of customers' behaviour, these organisations are now searching for viable transformation which will enable them to be catapulted to market leader position.

Now, top management teams have almost universally embraced the notion that their firms must innovate not only at the level of products and services but at the level of business models. Rethinking the fundamentals of how a business creates and captures value wasn't a priority in an era of slow change and stable industries, but during a time of rapid convergence of enabling technologies, customer desires, and business ecosystems, it now must be. As early as a decade ago, an Economist Intelligence Unit survey found a clear majority of executives saying that business model innovation would be more important to their companies' success than product or service innovation (Franklin).

Ecosystems are dynamic and co-evolving communities of diverse actors who create new value through increasingly productive and sophisticated models of both collaboration and competition. Leaders are taking lessons from the startup playbook on "minimum viable products" to launch minimum viable transformations-lightweight and readily adaptable versions of potential new business models.

Today, it seems the exception to find a strategy session that does not include challenges to-and ideas for reinventing-existing business models. Predictions are perilous, but one thing we know for sure: the pace of change in the next few years will be relentless. The companies that best understand the dynamics of this change and adapt fastest to the emerging business landscape will be the likeliest to prosper. Yet the dramatic shift toward understanding that business model transformation must be done hasn't been matched by an understanding of how to get it done. Excellent scholarship has defined what business models are and created a rich case file of innovative ones. But especially for established companies, the path to a new and different business model is far from clear.

This is why a trend we now see emerging is important to track. An analog to a proven approach in launching successful offerings-the use of "minimum viable products"-it has companies pulling together the essential elements of new business models into barely working prototype models, specifically designed to test key risks. Tomorrow's most impactful business model changes are starting their lives now as minimum viable transformations.

What's behind this trend?

Businesses now need to change more frequently and in more fundamental ways. They are experiencing intensifying competition, an accelerating pace of change, and growing uncertainty stemming from the increasing frequency of unanticipated extreme events (John Hagel). All this adds up to mounting performance pressures. For evidence, if we look at economy-wide firm topple rates, growing stock price volatility, and serious erosion in the return on assets generated by public companies-a 75 percent decline since 1965. Across the past half-century of enormous technological advances, firm performance has been deteriorating, and the economy has become less predictable.

But fast, large-scale change is enormously risky. Looking around for reassuring precedents of business model transformation at scale, we find precious few examples. On the contrary, we often hear the opposite-stories of audacious initiatives which flew too close to the sun and fell flat, at enormous expense. One often-referenced study concludes that over 70 percent of all major transformation initiatives fail (Beer).

Implications

There is an implication that is observed. As management teams increasingly pursue business model innovation, they should instruct and empower their strategy teams to launch, and learn from, minimum viable transformations. They should consider the five principles outlined below.

1. Learn how to learn. The central idea behind a minimum viable transformation is to learn from a true field experiment what has to be fixed or put in place before the envisioned business model can succeed at scale. By "failing small," and in a controlled way, businesses might gain tremendously useful information from the market before choosing which capabilities to scale. The in-flight learning continues through subsequent iterations and trials, allowing the business to keep adapting as the broader ecosystem in which it is situated responds and reacts to its new business model. As Chuck Schwab said in 2013, "If you are an innovator, you have to make mistakes. But if your clients don't like it, you withdraw it quickly."

In other contexts, this data gathering and analytic approach has been called "double-loop learning," a term coined by business theorist Chris Argyris. Rather than just "detecting error" against a pre-defined plan, double-loop learning allows the underlying plan (or the transformative strategy behind capability building) itself to be called into question.

2. Pick up speed. There's a reason things have to be kept "minimal." It's because the learning has to happen fast. All the more so because, as soon as a company has created any instantiation of the idea it is pursuing, it has shown its hand to competitors- who are then in a position to learn from the market's reception to it, too. Business literature is full of examples of companies who observed changing dynamics, under-stood pretty well how their ecosystems were evolving, and committed to major transformations-but simply allowed too much time to pass in planning all the details before actually making concrete moves.

3. Embrace constraints. There is a rich literature concerning the counter intuitive effect of constraints on creativity. Much evidence suggests they don't foil it; they fuel it. Perhaps most recent has been the celebrated concept of "jugaad" in emerging markets. A Hindi word, it essentially means "over-coming harsh constraints by improvising an effective solution using limited resources." While no one would advocate putting an innovation team on a starvation diet, it's worth noting that the very constraints we've been talking about here-minimal bells and whistles, and scarce time-can be the key to forcing extreme creativity. At the very least, they compel a focus on the goal-the need to learn and reduce risk around some key point-and force designers to weed out nonessential elements.

Many multinational organizations are finding success in resource constraints as they expand to emerging economies. Such constraints force companies to rethink their business models to not provide "less for less" but to retain the benefits while reducing resource intensity. Such corporations have certainly struggled, but as the HarvardBusiness Review reports:

. . . the opportunities of the future on a street corner in Bangalore, in a small city in central India, in a village in Kenya... don't require companies to forgo profits. On the surface, nothing could be more prosaic: a laundry, a compact fridge, a money-transfer service. But look closely at the businesses behind these offerings and you will find the frontiers of business model innovation. These novel ventures reveal a way to help companies escape stagnant demand at home, create new and profitable revenue streams, and find competitive advantage.

In the realm of business model transformation, there is an even greater benefit of harsh constraints. They give the design team a reason, right up front, to seek collaboration and cooperation from others who will be part of a new business model's ecosystem. Ideally, these constraints can also give incentive for leaders to harness additional support from ecosystems of third-party participants who can provide complementary capabilities. It limits the number of in-house capabilities necessary for transformation and helps the company to mobilize innovation and experimentation from third parties seeking to participate in an emerging and evolving business model. Promoting ecosystem development from the earliest stages of business model transformation can help build collaborative, future-oriented logic into the very center of the new business; we expect that the most successful business models of the future will likely be those that have a significant ecosystem component.

4. Have a hypothesis. All transformation initiatives need a clear and simple articulation of both the need for change and the broad direction of change. This statement of direction helps leaders to identify key assumptions driving the change effort (assumptions that need to be tested and refined each step of the way) and to develop metrics that will help the participants in the initiative to measure progress in the short term and to learn in real time.

To accomplish such learning, minimum viable transformation efforts must have feedback loops in place for the collection and analysis of market-validated learnings. Such analysis is only possible, however, with an initial hypothesis already in mind. In other words, fully defined assumptions, strategies, and tactics are necessary to know what is being tested in the first place. Transformation leaders should be particularly invested in the initial stages of transformation where those conjectures are laid out, before the data begins to flow in and confirming (or disconfirming) analysis begins to mount.

5. Start at the edge. Earlier we related the story of State Street. One thing it teaches is that beginning transformation at the "edges" of a business is a more reliable strategy for change than attempting to directly transform the core. Any attempt to impose a fundamentally new business model in the existing core of the company is likely to invite resistance from existing power structures in the firm-often resembling antibodies rushing to oust an intruding virus-to come out in force. The core is where the bulk of the current revenue and profits are generated-who would want to take the risk of messing with the business model that supports the existing business?

Far better to find an "edge" of the current business-a promising new business arena that could provide a platform for show-casing the potential of a fundamentally different business model and that has the potential to scale rapidly. Crucially, the best edges will have the potential to become a new core, as the back-office capabilities eventually became for State Street Bank. Edges give the transformation team far more degrees of freedom to test and experiment with new approaches to evolving a fundamentally different business model.

Using these five key principles of minimum viable transformation thinking, companies may be able to bypass traditional barriers to transformation, ultimately allowing them to more effectively respond to mounting performance pressures.

What's next?

"Success is a powerful thing," says Intuit's Scott Cook. "It tends to make companies stupid, and they become less and less innovative." The big problem is that it's a form of stupidity that, in the moment, can feel very smart. High-flying companies with so much to lose become cautious, their every move carefully considered.

The cure for too much risk aversion can't be reckless abandon. The search for better knowledge of what works-of how to de-risk opportunities to the extent possible while increasing speed-will continue, because the imperative to transform will continue. Performance pressures will only continue to mount, and with them the need for more frequent and fundamental change by enterprises.

Translating the practice of using minimum viable products to the higher level of testing transformation ideas is part of this, but we don't expect it will be the only part. Expect more "scaling up" of the approaches proving valuable to innovators in entrepreneurial settings and at the level of product and service innovation. The core principles of the mini-mum viable product-validated learning, rapid prototyping, frugal creativity-can help organizations limit the shortcomings of traditional transformation programs.Minimum viable transformations can reduce risk and increase speed, better enabling business model transformation at scale.

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