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Why Large Companies Struggle With Business Model Innovation

Innovation success stories are all strikingly similar: a bright idea, supported by a zealot-innovator who sees it through. The windfall of goodies follows. But failures happen for all sorts of reasons, and they often occur even when the idea is sound.

This is especially true for business model innovations — when the new idea is not a product, service, or technology but a different way of engaging with the customers and earning revenue from them. Large organizations in particular struggle to implement these kinds of innovations, which is why you most often see them in the context of entrepreneurial ventures. In our research on business model innovations in large companies, we've identified three common problems in executing or rolling out a new business model in large organizations.

Lack of top management support and attention

Unlike other innovations, implementing a business model innovation often requires changes that affect multiple parts of the organizations. And while the R&D department can sponsor and push through a new product or technology, rolling out a business model innovation requires direct support from the top management.

This was a problem for one large financial services company we worked with. We developed dozens of new innovation ideas with managers in the company but the board, though initially enthusiastic, never took the time and energy to engage with the projects, directing their attention on day-to-day operational issues instead. As a result the innovation projects died on the vine.

The board of a large chemical company we also worked with took a very different approach. Here business model innovation projects were sponsored directly by the board member who would receive regular updates and who would fly in personally for interim reports. The chief of HR personally tracked minor milestones of project implementations and personally followed up with groups falling behind schedule.

Reluctance to experiment

Even the most brilliant business model innovation idea is just that: an idea. It relies on a lot of assumptions and judgments, and in the absence of a crystal ball, the best tool we have is experiments. But established companies are surprisingly bad at experimenting.

A large retail chain on the brink of bankruptcy refused to follow our advice to experiment with a drastic revision of its labor management practices in a few stores because the CEO was concerned about appearing "indecisive" and "unsure" about the correctness of the decision. The company did eventually go bankrupt.

This "all or nothing" rather than "experiment and decide" mindset reflects technology/product innovation paradigm in which a company cannot afford not to launch a full-scale support of one innovation because it requires a strong marketing message across all channels. But business models are different: they often can be prototyped on the cheap by creating a "minimal viable business model" and experimenting with it.

Failure to pivot

Even when the company experiments with a new business model, it often fails to interpret the result of the test correctly and adjust an implementation plan accordingly. What may seem like a failed experiment might carry the message that an adjustment in the planned rollout of business model innovation is needed. And what looks like a successful test might not be really testing the most critical aspect of the business model.

Take the recent demise of the prominent startup Better Place, which promised to revolutionize electric cars by equipping them with switchable batteries. During the test of the business model in Tokyo, Better Place replaced regular cabs with their electric battery-powered cars in order to demonstrate the viability of its switching station business model. The experiment was a success but the company went bankrupt shortly thereafter.

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What the experiment had demonstrated was merely that battery switching stations work: it did not demonstrate that consumers would buy such cars, and people are understandably less finicky about taxicabs than about their own cars. One possible pivot after this test could have been to focus on selling to fleets (such as taxis), a route that Better Place did not appear to have taken. Another possibility ignored was to design a separate follow-up test to assess the likelihood of consumers actually buying Better Place cars. It might have told them that having just the one model to sell was unlikely to result in sufficiently large sales.

Business model innovation is a powerful driver of value and a surer way to succeed than technology, product, or service innovation. Large companies have the resources and capabilities to create and exploit business model innovation ideas on an extraordinary scale. But their failure rate is nonetheless unacceptably high because so far too many have not shown enough commitment and flexibility in the way they develop and roll them out.

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