Four Questions to Revolutionise Your Business Model

Innovation is about more than groundbreaking technology. Rigorous, systematic questioning of risks in your business model can unleash opportunities for game changing performance improvements.

For a decade or more, listings website Craigslist seemed a rare exception to the Internet's innovate-or-die rule. Very early in the new millennium, the San Francisco-based site nestled comfortably into the space once solely occupied by local newspapers' classified sections, thanks to a singular, free-ad-based business model predicated on low operating costs. It has since expanded into more than 70 countries without making any major changes to either how it does business or its infamously drab design.

A recent spate of copyright-related legal actions, however, may reveal that Craigslist's fountain of youth is at risk of running dry. In April 2013, a U.S. district court dismissed its claim that it held exclusive license to its listings. The year before, Craigslist added language to its terms of service asserting exclusive ownership of all user posts, prompting outcry from some consumer groups. (The language was deleted after just three weeks). At least to some, the company was starting to display a punitive side not in keeping with its stated mission to provide a public service.

It may be time for Craigslist to rethink its long-standing refusal to innovate, but this particular issue can't be resolved with a raft of fancy new features. To satisfy its critics while keeping startups at bay, the company would have to turn a cold eye to what has been the unquestioned basis for its success: the vaunted Craigslist business model. In their new book ***The Risk-Driven Business Model: Four Questions That Will Define Your Company***, Karan Girotra, INSEAD Professor of Technology and Operations Management, and Serguei Netessine, INSEAD Timken Chaired Professor of Global Technology and Innovation, make a forceful case for this sort of business model innovation (or "BMI") and map out how Craigslist – or any company in danger of dulling its competitive edge – could use it to their advantage.

Four W's to Manage Risk

The "four questions" of the book's title -- Who, What, When, and Why – are hardly unique to the business world, but according to the authors, few firms subject their business model to such basic scrutiny frequently enough. There's no substitute, Girotra and Netessine say, for the fundamental questions, such as "What should we sell?" and "When should we introduce our new products?"

"I like to compare it to financial auditing, which every organisation does every year, many times," Netessine said in an interview with INSEAD Knowledge. "Often, a public company will do it once a quarter. But then you ask the same company how often [it examines] its own business models, they'll tell you, 'Well, I don't know. Twenty years ago? Thirty years ago?'"

When business models are allowed to gather dust, the authors contend, hidden risks accumulate that could unravel companies. Though these risks come in many varieties, the book concentrates on two main kinds: information risk and incentive alignment risk. As Girotra explains, information risk "arises out of not knowing something, for instance which colour of iPhone 5 will be popular." Incentive alignment risk occurs when the best interests of stakeholders diverge. It was awareness of this risk, for example, that led entertainment rental company Blockbuster to change its contracts with movie studios in the 1990s so that stores could order more copies of the most valuable new releases. The result: a big boost in overall profits, and a new (if temporary) lease on life for Blockbuster.

Blockbuster's more recent difficulties, the authors suggest, perhaps could have been avoided had the firm kept the "4W"s top of mind. "The 4Ws anchor our framework," they write, "because they are the innovator's focal point for reducing both of our characteristic types of risk. By changing models to address the effects of these risks, you can limit the inefficiencies they cause and thereby unlock new value."

Model Innovators

Many companies have turned to BMI techniques in times of existential crisis, but Amazon stands out to Girotra and Netessine for prioritising proactive, rather than reactive, reinvention of its business model. The company underwent multiple shifts in its business model in its first 15 years, they say, taking it from a "sell all, carry few" system heavily dependent on book wholesalers and publishers to a major wholesaler in its own right with a far-flung, ever-expanding network of warehouses. "It is amazing, I think, how Amazon has kept far more discipline than almost any organisation you could think of," Girotra said.

But BMI isn't just for the big boys. To escape the deepening shadow of Amazon, for example, smaller online retail companies could use the 4Ws to carve out a niche for themselves. That was the case with Diapers.com, which launched in 2005 with a business model aimed squarely at new parents. "Diapers had one amazing thing going for them," Netessine enthused. "Demand for them is extremely easy to predict…For the next two, three years, you know exactly how much your customers are going to buy, and that makes it very, very easy to manage at very, very low cost and much higher efficiency than, say, for Amazon."

Small wonder, then, that when Amazon bought Diapers.com in 2010, it allowed the new acquisition to operate at a respectful distance from the parent brand. "Perhaps because they wanted to keep both business models separate, so that both strengths continue to be strengthened," Girotra said.

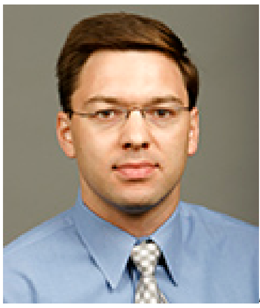
Enter the "Insurgency"

Effective implementation of BMI comes in three phases, the authors said. "The first phase is generating ideas of what kind of innovations [a company] might be able to do. Next phase is selecting between these innovations. And the final phase is really refining and testing them out, seeing if they really work or not," Girotra said.

When gathering ideas, the authors recommend including as much input as possible from throughout the organisation. But for efficiency's sake, it may be best for top management to hand-pick a diverse team to spearhead the refinement and experimentation phases. Girotra explained, "You don't really make war on the existing business model, you really have an insurgency of a few people sitting outside the traditional structure who start developing the model."

But unlike insurgencies that overthrow governments, these would be focused on "evidence-based experiential evaluation" that "eliminates a lot of the ideology around the existing and the new," the authors said. Ideological agnosticism as well as broad representation on the team will help soothe any sore spots within the organisation as thoroughgoing change commences.

Though it may appear risky to loosen attachments to business-as-usual, Netessine stressed that experimentation is a key driver of innovation, even when it yields short-term losses. "If you want to innovate, many of those innovations will fail. Many more will fail than succeed. The important thing is to keep the process running."



Serguei Netessine *is Professor of Technology and Operations Management at INSEAD. He is also The Timken Chaired Professor of Global Technology and Innovation and Research Director of the INSEAD-Wharton Alliance. He is a co-author of the book* ***The Risk-Driven Business Model: Four Questions that Will Define Your***

Company *(Harvard Business Press, 2014). You can follow him on Twitter @**snetesin**.*

***Karan Girotra*** *is an Assistant Professor of Technology and Operations Management at INSEAD and author of **The Risk Driven Business Model: Four Questions That Will Define Your Company**. He teaches the Identifying New Business Models module, part of INSEAD's MBA programme and the EMBA module called **Key Management Challenges** where classes engage in experimental workshops combining approaches to entrepreneurship and innovation. Twitter: @**Girotrak***

Follow INSEAD Knowledge on Twitter and Facebook

Find article at
https://knowledge.insead.edu/entrepreneurship-innovation/four-questions-to-revolutionise-your-business-model-3440

Download the Knowledge app for free