



# Business Model Innovation

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# Two types of innovation

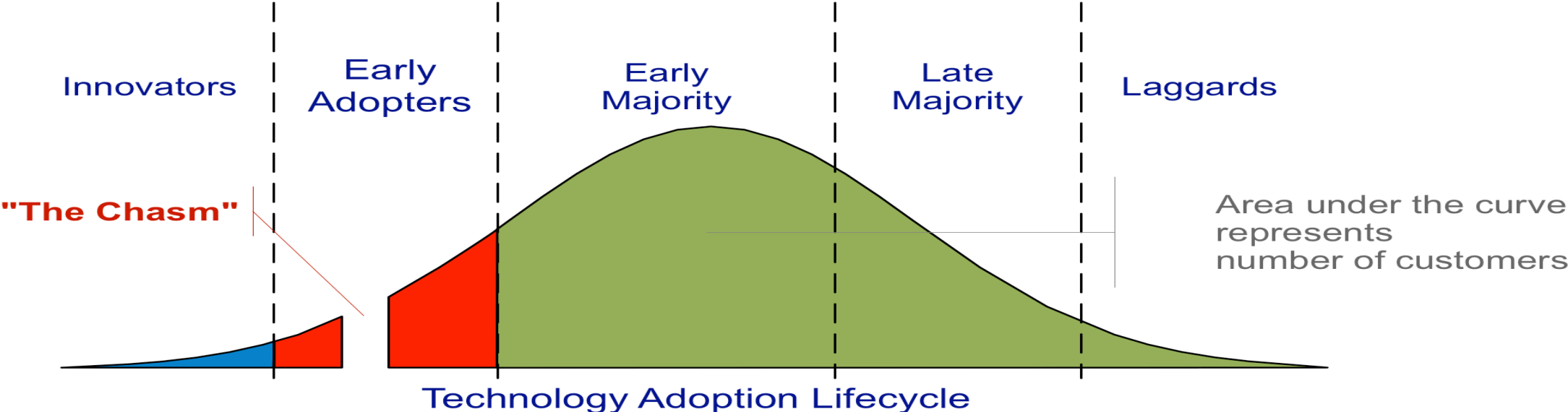
- Innovation that feeds the existing profit engine
  - Most process innovation
  - Product improvement innovation
  - New feature innovation

No conflict with the existing profit engine

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- Innovation that creates a new profit engine
    - New business innovation
    - Disruptive innovation
    - New business model innovation

Requires new governance & approaches

# Crossing the Chasm\*



\* Geoffrey Moore

# Key Messages

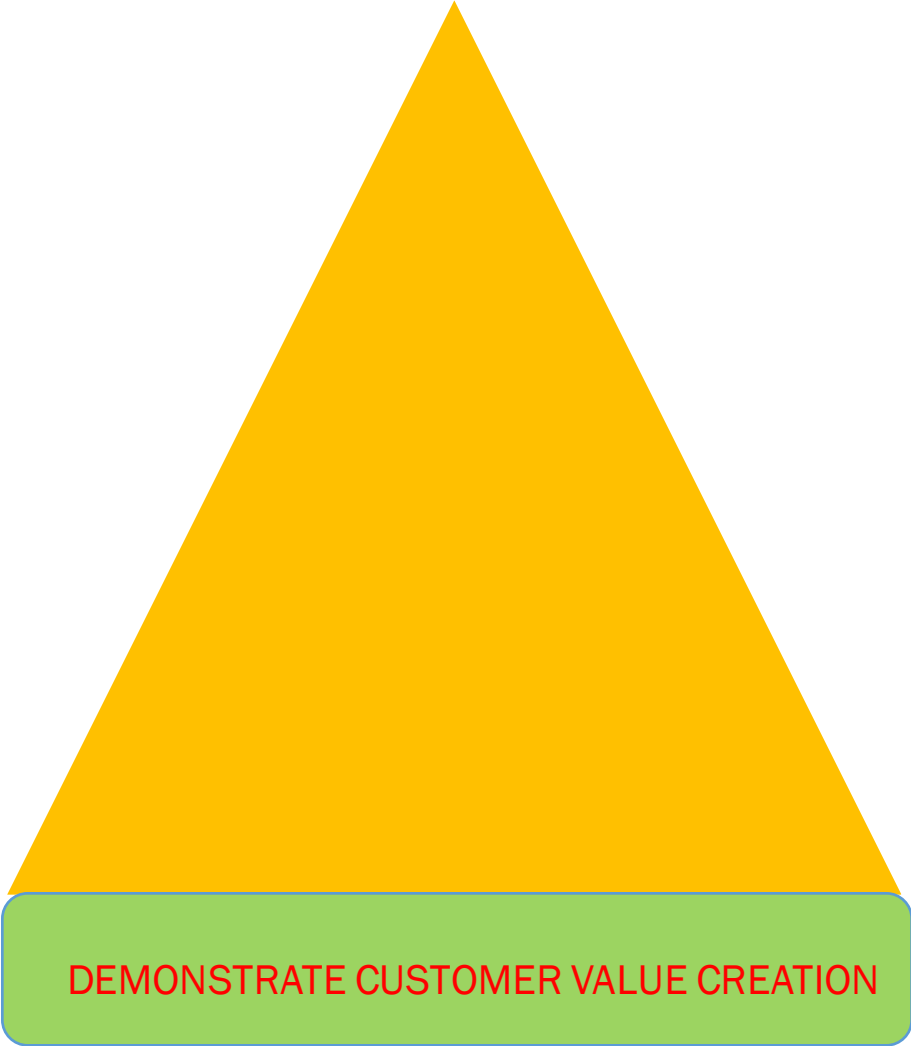
- Successful innovation starts with the **customer**
- Customers may lead you to businesses that don't match your **business model**
- To deliver new business models requires new practices, often working with **new ecosystem partners**
- Doing so effectively requires learning through **disciplined experiments**
- Conducting the experiments requires managing the relationship to the **performance engine**

# Business Model Innovation at Goodyear

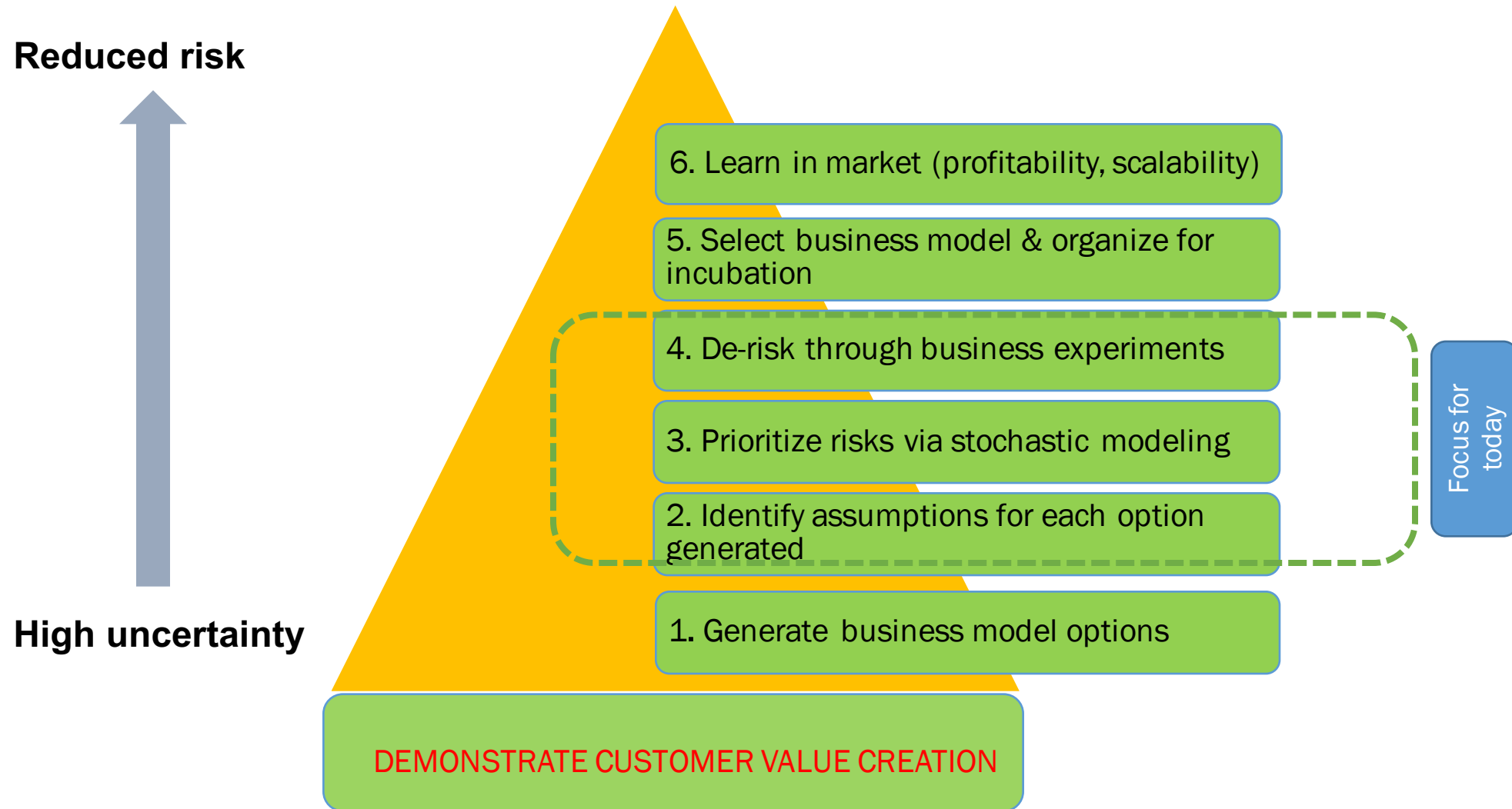
Reduced risk



High uncertainty

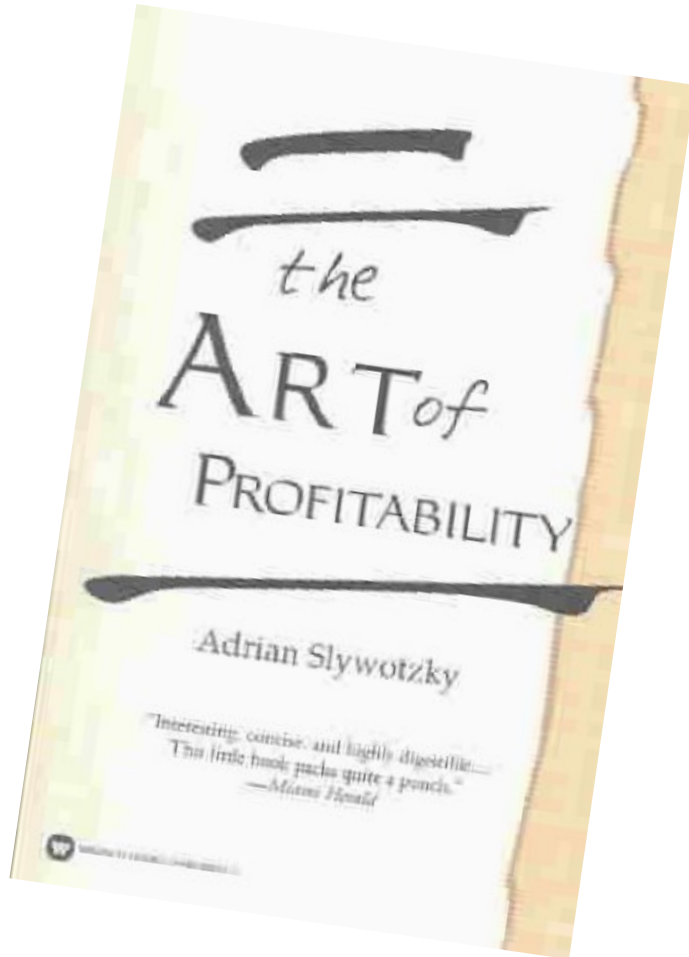


# Business Model Innovation at Goodyear



Source: Business Model Innovation in Practice – Research-Technology Management 2014

# 1. Generate business model options



- Develop coherent business models
- Archetypes are very helpful

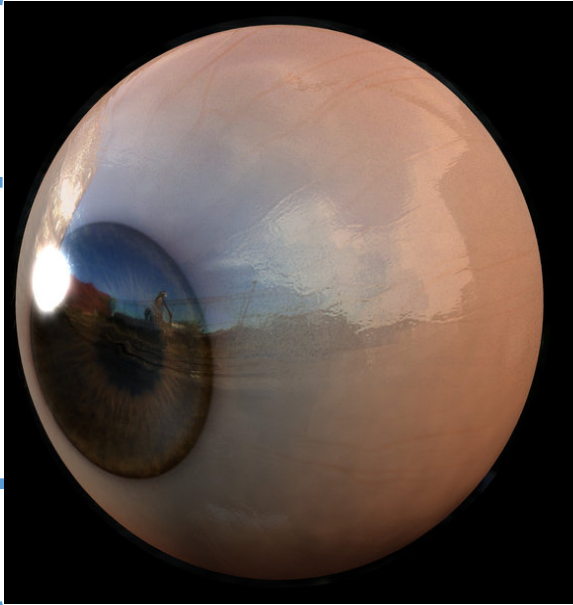
# 2. Identify key assumptions for each option generated

- **Co-innovation assumptions**  
– Who else needs to innovate for my innovation to matter?
- **Execution assumptions**  
– Can I build the right offering to the right user at the right time for the right cost & beat the competition?
- **Adoption assumptions**  
– Are there intermediaries who need to adopt my innovation before the end user can assess the full value proposition?

Blind spots

Focus Area

Blind spots



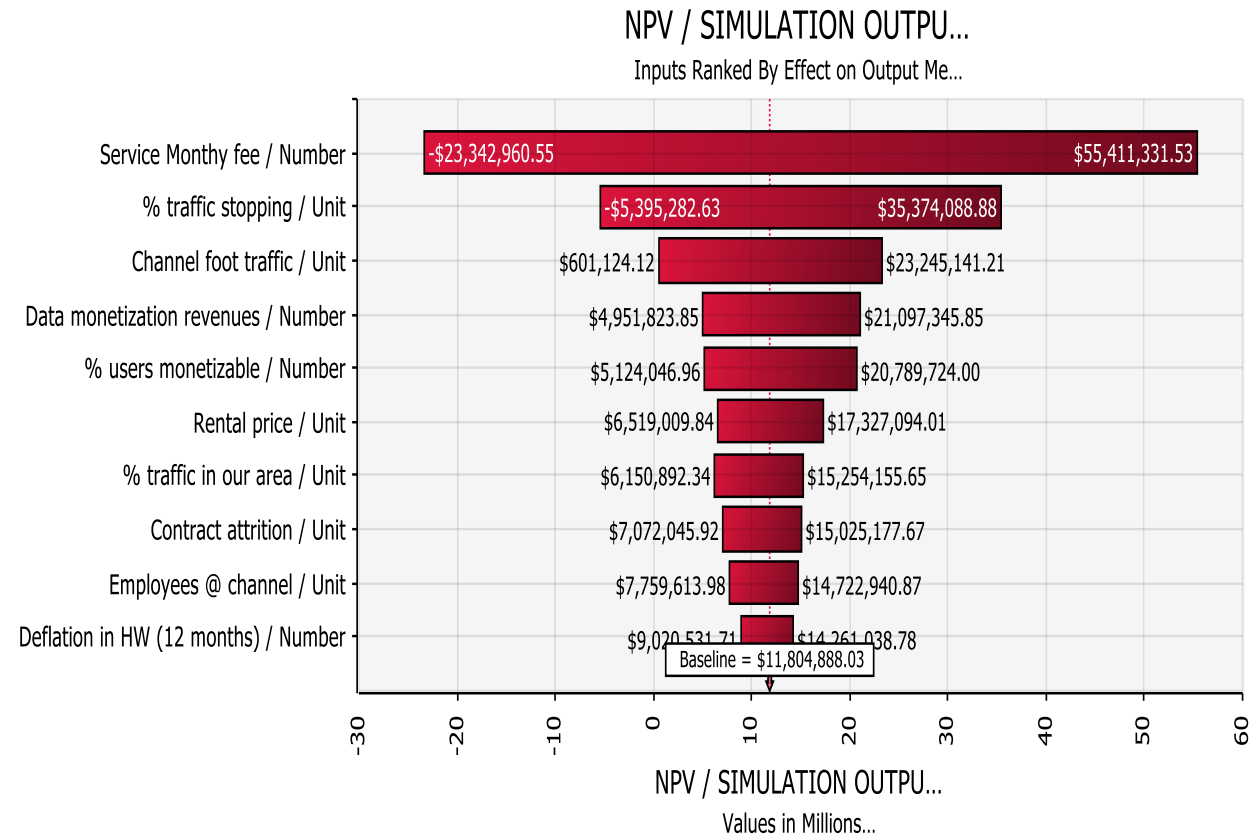
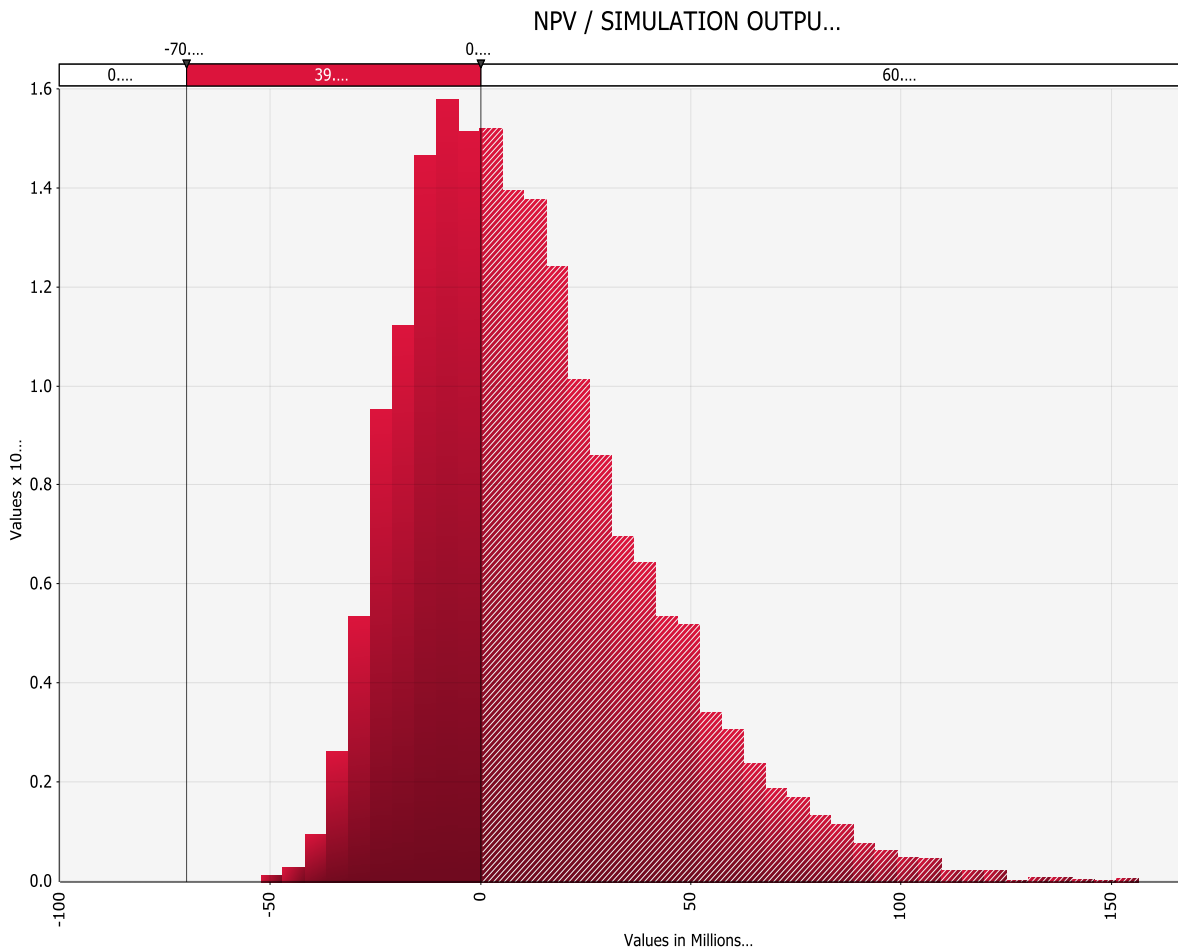
Source: Adapted from The Wide Lens – Ron Adner



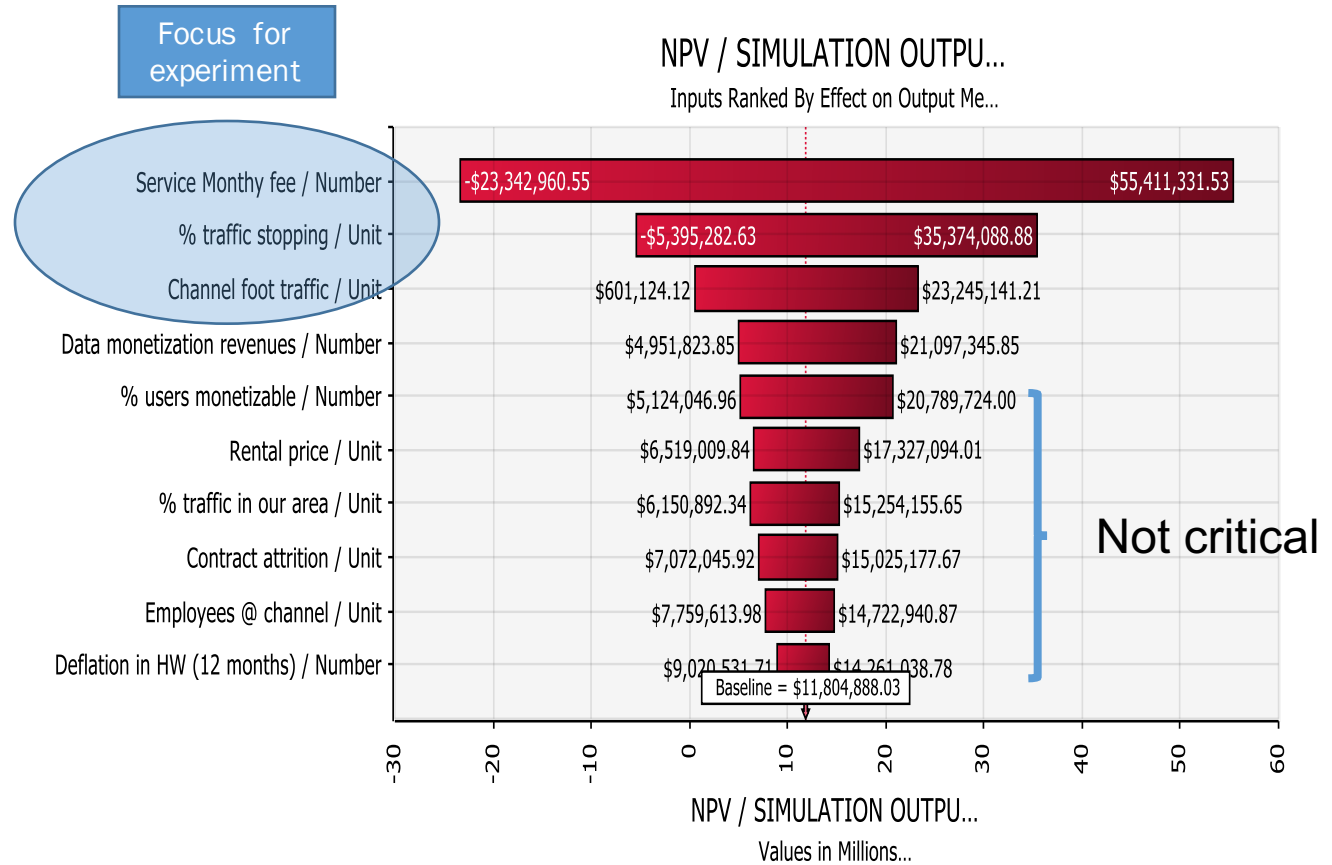
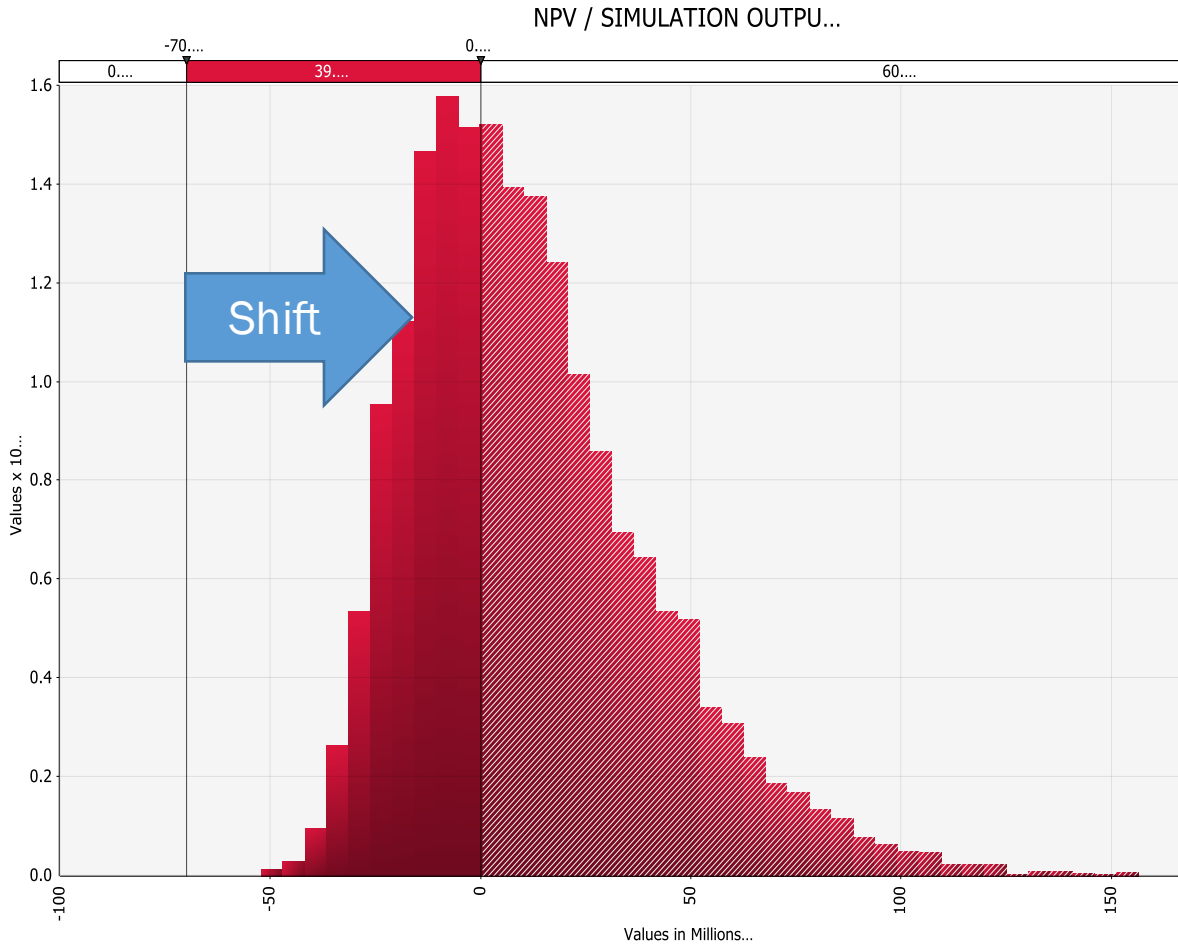
### 3. Prioritize risks through stochastic modeling of the P/L

Assumption	Type of assumption	Expected value based on current knowledge	But the highest it could be (guess)	And the lowest it could be (guess)
Price per unit	Execution	\$50	\$60	\$40
Licensing costs per unit	Execution	\$4	\$6	\$3
3 <sup>rd</sup> party channel incentive	Adoption*	\$12K	NA	NA
New hardware development by 3 <sup>rd</sup> party	Co-innovation*	\$350K	\$700K	\$200K

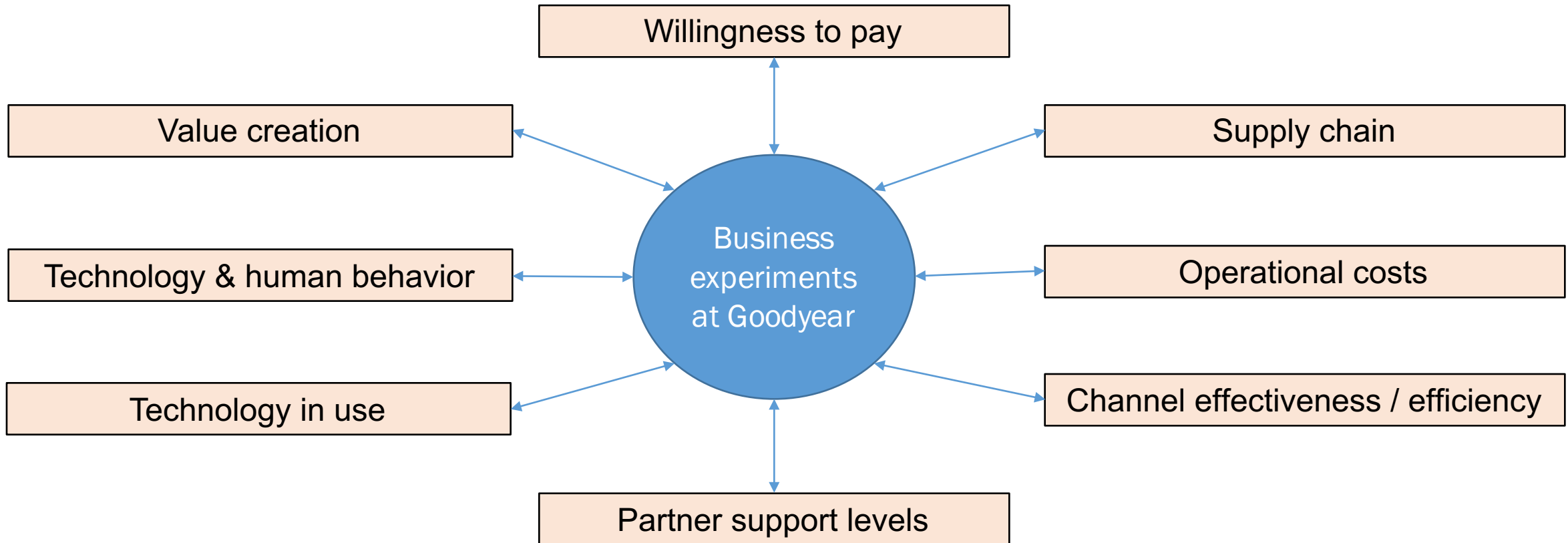
# A stochastic model quantifies the risk



# And tells you where to focus your efforts

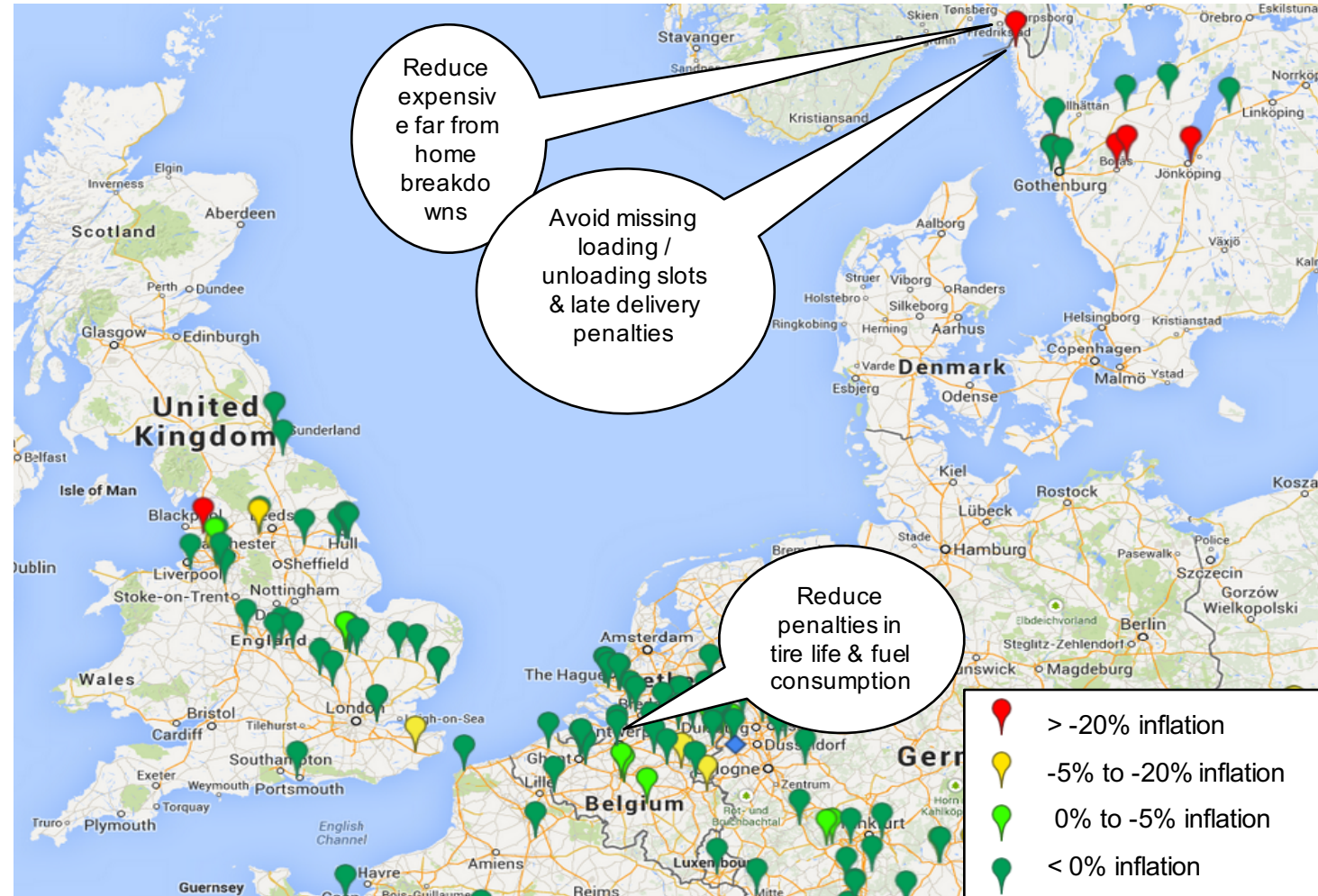


# 4. De-risk through business experiments



# Experiment example: Demonstrate customer **value creation**

- **Assumption:** Most breakdowns are related to improper management of tire inflation and can be prevented
- **Design:** Project team outfitted 50 trailers of a flagship European fleet
- **Results:** In a time period of 6 months, many incidents that would have resulted in breakdowns were prevented
- **Conclusion:** Move forward to design a business model for the project





# Experiment example : **Willingness to pay** for a recycled tire

- **Assumption:** Consumers will pay an X% premium for a green tire (New Earth tire)
- **Design:** Project team dressed/trained as in-store sales associates, pitching consumers the new concept (Wizard of Oz)
- **Results:**
  - Consumers expected a discount (they saw recycling as a savings opportunity for Goodyear)
  - Consumers would not compromise on any traditional performance attributes to get recycling as an additional feature
- **Conclusion:** Project cancelled



# Experiment example : **Supply chain** for used tires

- **Assumption:** The right number and quality of used tires will be available at a specified cost on the open market
- **Design:** Project team went to a used tire collection & processing center to inspect flow and quality of used tires
- **Results:**
  - Used tires had a very high value in the second hand market (impacting availability & cost)
  - Available used tires did not pass our required technical specifications
- **Conclusion:** Project cancelled





# Experiment example : **Channel effectiveness** for a new consumer telematics service

- **Assumptions:**
  - We can reach our target in shopping malls
  - Shopping malls will give 10% conversion rate
- **Design:** Project team created a kiosk in a shopping mall and hired contract salespersons to demonstrate and sell the service
- **Results:**
  - Kiosk operational costs validated
  - Consumers were willing to commit to solution
  - Conversion rate was X% of overall mall traffic
- **Conclusion:**
  - Work on cost structure (COGS & SGA) required
  - Promotion required to drive more traffic to kiosk
  - Sufficient conversion rate for taking project to next level



Pre sales form asking for:

- 1) Name
- 2) Price acceptance
- 3) CPF (SSN)
- 4) Signature
- 5) Date
- 6) Phone / email
- 7) Feedback



# Experiment example : **Technology in use** in a UK supermarket truck fleet

- **Assumptions:** We can achieve higher service levels (tire maintenance) without investing in new technician manpower
- **Design:** Equipment commissioned to see if readings could be used by maintenance technicians
- **Results:**
  - Initial readings problematic and inaccurate
  - Drivers had to be educated to use the technology before every trip
- **Conclusion:**
  - Additional development needed



# Experiment example : **Technology and human behavior** for a mining fleet

- **Assumptions:** By providing real time operator feedback, fuel consumption in mining haul trucks can be reduced by X%
- **Design:** Telematics devices fitted in haul trucks in a quarry to assess driver compliance with recommendations
- **Results:**
  - Initial savings did not meet targets
  - Mechanisms for influencing drivers identified
- **Conclusion:**
  - Experimentation continued



# Business experiments should ....

- Be out in the real world – *with* the market (not quite *in* the market)
- Have a SMART learning plan:
  - Not SMART** : Interview consumers in a shopping mall to understand if they will buy
  - SMART**: In the next 90 days, we will “sell” our offering to 6% of overall shopping mall traffic at a price point of \$12 per user
- Be cheap – keep the learning ahead of the spending
- Be fast
- Shed light on key unknowns

# Key Messages

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