Across all industries, organisations are continuing to face challenges around disruptions and the pace of technological change. Most senior leaders are tackling these challenges head on, with 88% of businesses across Europe stepping up their innovation investments over the next five years.\(^1\) When it comes to driving transformation and strategic change, business model innovation is often held up as the answer to questions posed by new technologies, competitive disruptors and evolving ecosystems. In practice business model innovation continues to be very difficult to implement and while some have explored the idea of developing separate business models in the same organisation, these sorts of approaches fail to take into account the conflict and damage that can arise by creating competing internal systems. However, there is another way.\(^2\) Organisations can instead choose to engage Business Model Transformation (BMT), a more purposeful and holistic approach to innovation at the business model level. In this article we discuss the major features of this new method and illustrate how business model transformation can deliver powerful benefits to those organisations prepared to invest in this approach.

**Transformation Roadmap**

One of the most important features of business model transformation, is the manner in which it explicitly lays out a roadmap for change that can be communicated much easier than traditional business model innovation efforts. Many business model innovation efforts, and transformation projects in general, are deeply confusing to staff as there is little clarity around the makeup of innovations or how they will affect operations until after they have been implemented. BMT removes this ambiguity by providing a roadmap that is easy to communicate to all internal and external stakeholders. This roadmap serves to explain the innovation at the heart of the transformation effort and how gains from the innovation initiative will be realised.

The major benefit of this feature centres on the removal of ambiguity and confusion around the innovation effort. This in turn limits the conflict that can arise in the
later stages of business model innovation, particularly during rollout and implementation. Ultimately this makes business model transformation a smoother process and serves to eliminate implementation problems downstream before they can arise.

**Trajectory Mapping**

Another feature that distinguishes business model transformation from more traditional approaches, relates to the start-point of the process. Where business model innovation is more static, taking a snapshot of the current business model and questioning what can be changed, BMT recognises that all business models are constantly evolving and developing, even if this is only observable at the micro level or through incremental change. Crucially, much of the change occurring here, is not initiated by conscious design.

By recognising that business models are already organically evolving, transformation efforts are more cognisant of the current trajectory a business model is moving in and why. This allows for smarter transformation decisions, as potential cultural or technological conflicts can be anticipated ahead of time, closer to the beginning of the transformation effort. Also, the mapping of business model trajectories as dynamic rather than static models, enables more forward-looking capability development and ensures organisations are prepared to reap the full benefits of transformations in rollout.

**Industry Extrapolation**

A major feature of business model transformation that is not found in traditional approaches relates to the extrapolation of industry evolution, and the deeper understanding of how an organisation’s industry structure and architecture are moving. Often industrial analysis focuses on the changes happening on the surface level structure of the industry, ignoring the deeper and more subtle evolution occurring at the architectural level. A major point of focus here is industry architecture, which relates to the landscape of opportunities and capabilities that allow for the formation of an industry structure, while also setting out the means for innovation and commercialisation across the industry.

By engaging in this deeper and more complex form of analysis, BMT is built on a much stronger foundation than traditional innovation efforts. Understanding the mechanisms of architectural changes gives deeper and more meaningful insights into industry evolution, and allows for a clearer identification and extrapolation of an industry’s evolutionary path. While we do not predict the future in strategy, we can predict several possible futures, and assign relative probabilities to these individual trajectories. This sort of forward extrapolation at the industry level, gives a real competitive advantage to organisations, who can then engage faster adaptation and drive the agenda as their industry evolves.

**Integrated Value Engineering**

One major feature unique to business model transformation, is the manner in which value engineering occurs in an integrated manner. Traditional approaches to business model innovation focus on the value proposition, and how value is created, captured and delivered across the business. BMT goes one step further, recognising that the interaction effects of a value proposition’s components are just as crucial as the individual value components themselves. This feature is only increasing in importance, as more frequently we are seeing issues regarding integrated value stretch across organisational boundaries. Recent studies have shown that 93% of firms in Europe intend to increase their share of RDI spending on collaborative projects within the next five years. As this trend continues, the necessity of integrated approaches to value engineering will only increase.
Alignment between value creation and capture is crucial here and studies have shown that both value creation and value capture should be considered simultaneously throughout any business model innovation process. By pre-aligning the value engineering occurring within the BMT effort, organisations can ensure that there is less value leakage. As with resource development, often organisations find that generated value cannot be fully captured or delivered to customers due to some disconnect in either frontline or secondary processes. Unsurprisingly, this is one area where business model transformation shines, unlocking higher ROI on transformation and innovation efforts again and again.

**Disruptor Nullification**

A unique feature of business model transformation, and one which allows for immediate competitive action, is the manner in which it employs disruptor nullification. Built into the BMT process, is a strategic assessment of any competitors, including current or potential disruptors. This assessment focuses on both the innovative strengths of competitors, but also identifies where competitor and disruptor business models are weak. Figure 1 below, depicting an adapted version of the business model canvas, illustrates the areas in which a business model can be interrogated in this manner.

The benefit of this analysis comes from the identification of weak spots in the business model of a powerful competitor or disruptor. Then, rather than compete with the disruptor head on, firms can pivot the base of competition to where a disruptor has no advantage. For instance, if faced with a disruptor that has a more powerful value proposition based on a new technology, rather than try and compete on technology in the short-run and likely lose that battle, it is much more sensible to build a strength elsewhere, perhaps by developing more valuable or easy to use channels for customers. Disruptor nullification such as this allows organisations to take advantage of flaws in competitor and disruptor business models, including low-tech pivots or the development of higher switching costs. These moves can then be used as defensive tactics in the short term, while BMT aids the development of stronger core innovations and longer-run advantages.

**Figure 1. Business Model Canvas**

![Business Model Canvas](adapted_from_strategyzer.com)
Strategic Options Development
An often-overlooked feature of business model transformation is its focus on a range of strategic options, rather than a single point of innovation. In this way, BMT opens up several pathways to transformation, such as exploring routes for productisation and servitisation. Good BMT will develop several strategic options here, and aid decision-making around the best possible path forward for the organisation. This differs from traditional business model innovation efforts, where often only a single direction is developed around the innovation perceived to be most valuable.

A major but subtle benefit of this feature of BMT is how it controls bias and the emergence of path dependency in the strategy process. Otherwise organisations could find themselves trapped in developmental trajectories that lead to disadvantaged positions. Crucially, this gives senior leaders more choice, rather than locking them into a path they may not want to pursue.

Transformation Progression
Another important feature built into the holistic approach of business model transformation relates to the manner in which change is planned as a progression of transformation. Unlike other approaches, BMT makes explicit the key decision-points around the pace and sequence of transformation, before implementation is engaged. While business model innovation can lead to some great initiatives for change, often these changes are considered in a vacuum that fails to factor in the other changes occurring across the business. BMT is different in that all potential spheres of innovation are considered in terms of their impact on one another.

This allows for the development of optimum transformation sequences while also shedding light on how individual innovations should be handled, some being launched in parallel to one another, with others being scheduled in sequence. The benefits stemming from this include:

- Smoother implementation rollouts.
- A reduction in lost time when transitioning strategic initiatives.
- Earlier identification of resource needs.
- Identification of forthcoming phases of organisational stress.

Ultimately these benefits serve to reduce an organisations transformation time, allowing innovations to be brought online earlier and giving a competitive edge.

Implementation Focus
The final feature of business model transformation that should be acknowledged is its focus on implementation from the very beginning of the process. From the outset BMT identifies hurdles and challenges to successful implementation. One of the major weaknesses of traditional business model innovation, is its tendency to take a static view of the organisation, how it generates value, and where it should move. This form of analysis often takes the form of as-is and to-be modelling, without considering the journey the organisation must take to fully realise the objectives of the transformation effort. Business model transformation overcomes this pitfall, by focusing on the development of the entire business model, rather than just an innovation within it.

One of the major benefits of BMT here, is to smooth transitions which could otherwise generate organisational conflict. Also, the transformation focus of BMT will build-in the necessary capability development that is required for a successful transition and highlight any gaps in the organisation’s capability portfolio. As recent studies have shown, the major impediment to realise the
benefits of innovation continues to be resource constraints, with 68% of businesses across Europe reporting the availability of skilled staff the biggest obstacle to innovation.\(^1\) In this way, business model transformation enables faster implementations while reducing the occurrence of risks which could derail the transformation effort.

**Conclusions**

In this article we have reviewed business model transformation and seen how its features differ from traditional innovation efforts. As more complex business models continue to emerge, more collaboration is being required. Approximately 75% of Horizon 2020 funds in the EU have been dedicated to collaborative projects involving several organisations across different countries.\(^10\) This puts greater pressure on organisations pursuing transformation efforts and business model innovation. Business model transformation offers a stronger way to drive these change efforts by balancing the change occurring between an organisation’s business model and those emerging in the wider industry.\(^11\) This balance is grounded in the unique features and benefits of business model transformation explored above. For the leaders who can adopt this approach and engage business model transformation in earnest, there are real sources of sustainable advantage waiting.

**References**

8. *Business Model Canvas*.
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