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# Reinventing Your Business Model

Key ideas from the [Harvard Business Review](#) article By Mark W. Johnson, Clayton M. Christensen, Henning Kagermann

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### The Idea in Brief

When Apple introduced the iPod, it did something far smarter than wrap a good technology in a snazzy design. It wrapped a good technology in a **great business model**. Combining hardware, software, and service, the model provided game-changing convenience for consumers *and* record-breaking profits for Apple.

Great business models can reshape industries and drive spectacular growth. Yet many companies find business-model innovation difficult. Managers don't understand their existing model well enough to know when it needs changing--or how.

To determine whether your firm should alter its business model, Johnson, Christensen, and Kagermann advise these steps:

1. Articulate what makes your existing model successful. For example, what customer problem does it solve? How does it make money for your firm?
  2. Watch for signals that your model needs changing, such as tough new competitors on the horizon.
  3. Decide whether reinventing your model is worth the effort. The answer's yes only if the new model changes the industry or market.
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### The Idea in Practice

#### Understand Your Current Business Model

A successful model has these components:

- **Customer value proposition.** The model helps customers perform a specific "job" that alternative offerings don't address.  
MinuteClinics enable people to visit a doctor's office without appointments by making nurse practitioners available to treat minor health issues.
- **Profit formula.** The model generates value for your company through factors such as revenue model, cost structure, margins, and inventory turnover.

The Tata Group's inexpensive car, the Nano, is profitable because the company has reduced many cost structure elements, accepted lower-than-standard gross margins, and sold the Nano in large volumes to its target market: first-time car buyers in emerging markets.

- **Key resources and processes.** Your company has the people, technology, products, facilities, equipment, and brand required to deliver the value proposition to your targeted customers. And it has processes (training, manufacturing, service) to leverage those resources. For Tata Motors to fulfill the requirements of the Nano's profit formula, it had to reconceive how a car is designed, manufactured, and distributed. It redefined its supplier strategy, choosing to outsource a remarkable 85% of the Nano's components and to use nearly 60% fewer vendors than normal to reduce transaction costs.

#### Identify When a New Model May Be Needed

These circumstances often require business model change:

<i>An opportunity to ...</i>	Example
Address needs of large groups who find existing solutions too expensive or complicated.	The Nano's goal is to open car ownership to low-income consumers in emerging markets.
Capitalize on new technology, or leverage existing technologies in new markets.	A company develops a commercial application for a technology originally developed for military use.
Bring a job-to-be-done focus where it doesn't exist.	FedEx focused on performing customers' unmet "job": Receiving packages faster and more reliably than any other service company.
<i>A need to ...</i>	Example
Fend off low-end disruptors.	Mini-mills threatened the integrated steel mills a generation ago by making steel at significantly lower prices.
Respond to shifts in competition.	Power-tool maker Hilti switched from selling to renting its tools in part because "good enough" low-end entrants had begun competing away at the market for selling high-quality tools.

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#### Further Reading

#### Articles

## **Marketing Malpractice: The Cause and the Cure**

*Harvard Business Review*

December 2005

by Clayton M. Christensen, Scott Cook, and Taddy Hall

Ted Levitt used to tell his Harvard Business School students, "People don't want a quarter-inch drill--they want a quarter-inch hole." But 35 years later, marketers are still thinking in terms of products and ever-finer demographic segments. The structure of a market, as seen from customers' point of view, is very simple. When people need to get a job done, they hire a product or service to do it for them. The marketer's task is to understand what jobs periodically arise in customers' lives for which they might hire products the company could make. New growth markets are created when an innovative company designs a product and then positions its brand on a job for which no optimal product yet exists. In fact, companies that historically have segmented and measured markets by product categories generally find that when they instead segment by job, their market is much larger (and their current share much smaller) than they had thought. This is great news for smart companies hungry for growth.

## **Meeting the Challenge of Disruptive Change**

*Harvard Business Review*

March 2000

by Clayton M. Christensen and Michael Overdorf

Why can't large companies capitalize on the opportunities brought about by major, disruptive changes in their markets? It's because organizations, independent of the people in them, have capabilities. And those capabilities also define disabilities. As a company grows, what it can and cannot do becomes more sharply defined in certain predictable ways. The authors have analyzed those patterns to create a framework managers can use to assess the abilities and disabilities of their organization as a whole. They also suggest ways large companies can capitalize on opportunities that normally would not fit in with their processes or values.

## **The Customer-Centered Innovation Map**

*Harvard Business Review*

May 2008

by Lance A. Bettencourt and Anthony W. Ulwick

We all know that people "hire" products and services to get a job done. Surgeons hire scalpels to dissect soft tissue. Janitors hire soap dispensers and paper towels to remove grime from their hands. To find ways to innovate, it's critical to deconstruct the job the customer is trying to get done from beginning to end, to gain a complete view of all the points at which a customer might desire more help from a product or service. A methodology called job mapping helps companies analyze the biggest drawbacks of the products and services customers currently use and discover opportunities

for innovation. It begins with breaking down the task the customer wants to accomplish into the eight universal steps of a job: 1) defining the objectives, 2) locating the necessary inputs, 3) preparing the physical environment, 4) confirming that everything is ready, 5) executing the task, 6) monitoring its progress, 7) making modifications as necessary, and 8) concluding the job. Within each step lies multiple opportunities for making the job simpler, easier, or faster. By locating those opportunities, companies can discover new ways to differentiate their offerings.

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