Repositioning Is Not a New Business Model

Graham Kenny

In English, we struggle with the distinction between "different" and "new." It's relevant when we come to describing business models and their likely impact. Let's take cars as a starting point. There are many *different* makes and models on the market. They vary in shape, size, color, and features, but they're also all the same — they're all cars. Yet when we buy one of them, discarding our old vehicle, we buy a *new* car. On the other hand, were it not already invented, plane travel would be classed as a *new* form of transport, compared to driving along the highway.

When we boil it down, the distinction between "different" and "new" is that with the former, the basic *structure* of the item — car, house, boat — remains the same. With "new," we're involved in the *replacement* of the old. How does this affect the way we describe business models and their likely impact in the search for advantage?

Since Joan Magretta's pioneering article years ago, the term business model has entered the popular lexicon with a vengeance. Basically, it's how organizations produce desired results. All organizations have business models (even people smugglers, apparently) but few have created a *new* one — and that adjective is used rather freely, with little care for its accuracy. If you are to succeed in business model design, it's important to understand what a new model actually is and how it differs from mere positioning.

We see positioning in the airline industry. Across the globe there are traditional carriers and no-frills competitors, with many variations in between. Australia, for instance, has three main domestic airlines: Qantas, Jetstar (Qantas's no-frills line), and Virgin, which started out as no-frills and has since chased the business-class, high-margin segment. Each airline vies to capture travelers' dollars by marking out its distinct territories on price, image and brand (through advertising and association with sporting teams, for example), convenience (departure times and destinations visited), airport facilities (presentation and lounges for frequent flyers), customer service (on the ground and in air), product range (business class and economy) — the strategic factors that matter to passengers in making a choice. While the no-frills approach is a fairly *new* business model in the airline industry, compared to full service, I suggest that it's simply *different*; it involves positioning on the same basic strategic factors for customers.

That's not the story in the clothing industry. Positioning *was* once solely at play with customers choosing one retailer over another. But then the disruptors — the online sellers — came along. Enter the likes of ASOS, the largest independent online clothes retailer in the UK. With free delivery worldwide for orders over a certain amount, ASOS has turned the industry on its head. How? It dismissed many of the strategic factors that were essential in traditional retailing. Store location became irrelevant — there are no stores. For the same reason, store layout dropped away. Face-to-face customer service became nonexistent. At the same time, ASOS repositioned itself on other factors, such as product range, gaining a further edge. ASOS had created a *new* business model.

Coming up with a new business model and executing it provides a huge advantage. Here are a few suggestions to make it work for you.

Since a new business model requires disrupting the present, it's important to be thoroughly conversant with your prevailing model and how your business creates value. As others have observed, boards and senior executives very often aren't clear about the drivers of their current success with customers. Many CEOs and management teams either don't know these things or, if they do, their definitions of them are either unclear or just plain wrong. You need to understand the strategic factors relevant to your company's present success — otherwise, your search for disruption is likely to be way off base. But go further. Get into the minds of your customers, capturing the definitions of these factors from their point of view. Listen to their stories, as they'll most likely tell you what future disruption looks like.

Don't confuse a new business model with changing the activities performed within an organization. That's plain old business process reengineering. This inside-out view has the potential to see you labeling mere internal alterations as a new model. Don't. Instead, take an outside-in view, focusing on outcomes, not activity, in addressing whether the business model is truly new. Internal activities will most likely morph as a result of addressing changes to strategic factors, but this is a second-order effect.

You only need to make *one* strategic factor no longer pertinent to have designed a new business model. With online ordering, the factor could be location for food retailing, store presentation for banking, or hours of operation for flight bookings. The search starts with what-if questions. What if, for example, customers didn't need to travel to the store? What if we didn't need stores at all?

What if opening hours no longer mattered? As customers run these scenarios through their minds regularly, find a way to tap into their thinking. Then follow the scent along the trail to a new business model.

Time and again, I see management teams refining and refining and refining their positions on strategic factors in order to squeeze just a little bit more competitive advantage out of the factors relevant in their industry. There's nothing wrong with that, and may the practice continue. But be aware that this puts you in the same boat as your competitors. My suggestion is that, in addition, you give thought to putting a new business model in place. This requires going against industry norms, but it's where disruptive advantage may lie.

Graham Kenny is the managing director of Strategic Factors, a Sydney, Australia-based consultancy that specializes in strategic planning and performance measurement, and the president of Reinvent Australia. He is the author of *Crack Strategy's Code* (President Press, 2013) and *Strategic Performance Measurement* (President Press, 2014).

HBR ARTICLE APRIL 12, 2016