Iterative Business Model Innovation
Exploring a Holistic Framework in Order to Create and Capture New Value

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Abstract

Title: Iterative Business Model Innovation - Exploring a Holistic Framework to Create and Capture New Value.

Author: Knutur Gudjonsson.

Supervisor: Hans Sjögren.

Background: There is an increasing amount of arguments made that new business models are the solution when companies and industries face radical changes in the environment. To be able to prosper in the long run, organizations must reinvent themselves over and over again. Many authors (e.g. Abernathy & Utterback, 1978; Christensen, 1997; Kim & Mauborgne, 2005; Ries, 2011) claim that big, radical, reconfigurations are needed in order to prosper in the long-term. Theories, concepts and framework have been developed to answer how this reconfiguration should happen within organizations. However, the concepts derived are just parts of the solution, and none take a holistic approach, trying to cover them in a practical framework that could be used by organizations.

Aim: The aim of the thesis is to propose a framework that enables organizations to systemize their innovation processes, making them flexible enough to repetitively seize opportunities through business model innovation where new value can be created and captured. The proposed framework aims to enable organizations to start discussing how they should create and capture new value and give them a more pragmatic view on the innovation process. It also aims to act as a starting point for future research.

Methodology: The thesis follows March & Smith’s (1995) design science methodology in order to build and evaluate the framework. This is done in three steps; first by building a model from theory. Second, the emergence of business models in three different case companies are compared and investigated qualitatively. Lastly the model and the factors derived from the data are contrasted and a framework is built and evaluated.

Findings & Conclusion: The basis of the derived framework proposes for big steps to change, and create and capture new value; analyze the basis of competition in the macro and micro environment, analyze and experiment with different non-customer tiers, experiment with the creation of value and experiment and analyze the capture of the value created. More tangible tools are proposed for each of these steps. Actually testing the framework and further evaluating and theorizing of the framework is proposed as future research directions.

Key words: Disruptive Innovation, Blue Ocean Strategy, Business Model Generation, Minimum Viable Product, Radical Change.
Acknowledgement

The first draft of anything is shit. - Ernst Hemingway

Luckily, this is not a first draft. To that, I have a bunch of people to thank. The thesis you are holding (or reading on a screen) is the final piece in my somewhat oblique five year run as a university student. The structures and the flexibility of the programs here at Linköping University have allowed me to travel Los Angeles and New York, and given me the opportunity to study in Grenoble and Tokyo. On account of the flexibility the administrators at Linköping University have given me, I now have friends all over the world and consider myself a person that can look through the lens of many. For that, I owe the administrators and teachers at LiU a big thanks!

For the thesis specifically, I would like to thank my supervisor Hans Sjögren and the fellow students in our thesis group. Both for very detailed read throughs and for the freedom I was given to follow my own direction. Outside the university plenty of my family and friends have helped me to move from a first draft to a finished master thesis. A special thanks goes to my parents, they have cooked me food, bought me lunches and even transcribed some segments of the interviews. Thanks Bertha and Gudjon! I would like to thank my childhood friend Erik Johansson whom I Tom Sawyered into transcribing a segment and Nima Kouchecki, who both transcribed some segments and did a read through of my thesis. Further, big thanks to Andreas Jonsson, Klara Gustafsson, Björn Dahlberg, Robin Hals and to soon to be wed Fredrik Hasselqvist, who all read through parts of the thesis and gave me invaluable feedback on structural issues, language mistakes and where to correct illogical and unclear parts. Also, my gratitude goes to Heimir Gudjonsson that enabled me to get a change of scenery by providing food, shelter and laughs in Spain. And grazie Simon for the macchiato doppio that cracked the analysis right open!

An acknowledgement to the theoretical giants of the innovation field is in order as well. Clayton Christensen’s theories on Disruptive Innovation was what inspired me to do the thesis. Osterwalder’s (2004) dissertation on business models have been a source of inspiration structurally, as well as in content.

Last but not least, a big thank you to the interviewees; Erik Mellström Byrenius, Robil Barhanko, Johan Strömqvist, Joachim Falk, Stefan Jakobsson, Beata Kollberg and Mile Elez, both for interesting discussions and for giving me a very generous level of access.

I hope you will find the thesis interesting and enjoyable.

Linköping, 29th of may, 2013.
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1. Introduction

1.1. Background

“The music industry is dying, it must come up with new business models!”

This was a sentence that was repeated in different versions like a mantra from journalists, managers and researchers in media in the beginning of the 21st century (E.g. Mann, 2003; Fox, 2004; Sandoval, 2007). The sentence is now reoccurring in the movie industry, with the brick & mortar retailers, for the flight industry, and many, many other industries. Can new business models be the answer for all industries in decline?

Going back to the case of the music industry, the illegal downloading of songs via Napster, Kazaa, DC++ and the Piratebay disrupted the industry and heavily decreased the revenues from CDs-sales (Hunter-Tilney, 2010). The piracy-programmers were offering a simpler and a (infinitely) cheaper way to get and listen to Music. So what did the music industry do? They did not come up with new business models, instead they fought with their bare claws to protect the current business model so that status quo would be upheld (Mann, 2003).

Piracy grew even stronger and still, the music business did nothing business model-wise. Instead they pursued lawsuits against programmers such as Sean Parker and normal citizens (Lamont, 2013). The fear that digital music would not bring in as much revenue as their brick-&-mortar business model kept the industry paralyzed. Apple came along with their iPod, further increasing demand for easy access to digital songs. It was also Apple who was one of the first actors to seize the opportunity to create and capture value in the industry through business model innovation. They struck a deal with the big, increasingly more desperate, record labels, enabling consumers to download any song for 99 cent (Isacson, 2011). This won over some of the music consumers that wanted to buy music, but who refused to do so because of inconvenience or (too) high prices. Later Spotify entered the industry with an offering that provided directly streamed music to the consumers, hence surpassing the pirates’ convenience barrier. On top of that they had a freemium profit model that allowed consumers to consume music for free (in exchange for short commercial breaks) or paying a small amount in a subscription fee. Spotify thus offered a better alternative in convenience and tied the pirates in prices. With this business model they managed to attract pirate-consumers that were too lazy to download songs through a bitTorrent, and those who had grown used to getting music for free. When the former pirates became used to the ease of Spotify’s streaming service but annoyed by the commercial, they became real paying customers.

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1 A business model describes the rational a of how an organization creates, delivers and captures value (Osterwalder & Pigneur, 2010: 14).

2 Sean Parker is the cofounder of Napster.

3 Interestingly, to win market share and popularity with their iPod, Apple promoted piracy in their first ad campaigns, with the slogan “Rip. Mix. Burn” (Isacson, 2011).

4 A bitTorrent is a protocol that enables file sharing through peer-to-peer network.
through Spotify’s subscription model. Thus Spotify and Apple created value through the ease of use and an enhanced customer experience, and then captured value through an innovative and different profit model. They created and captured value from the music industry, as well as from the free pirate market.

Why were the companies in the music industry so eager to uphold the status quo, and why was it not them who created and captured value through these offerings and business models? One of the answers is profit margins. Selling songs online for 99 cents, or even worse, trying a freemium model, would radically decrease their profit margins and cannibalize on their current main source of revenue, the CD-sales. Thus the incumbents are inclined to keep the status quo to capture value from the market as long as possible (Abernathy & Utterback, 1978; Christensen, 1997). When new opportunities arise that could change the structure of offerings and the business model around them (in the music case; internet, mp3, peer-to-peer technology, streaming) the incumbents are often reluctant to go after these opportunities if they do not serve their most profitable customers and do not provide the same, or higher, profit margins as the current business model (Christensen, 1997). This opens up for new entrants to disrupt these incumbents by creating an organization adapted to lower profit margins. The disruptors in the example above were the pirates, Apple and Spotify. They were all willing to create a model that captured value from customers in (and outside) the fringes of the music market and were thus eventually able to capture value from the main customers of the industry as well.

We live in an era where change is happening ever faster. Our environment shifts faster, customer preferences and the activity of other actors are in constant flux (Teece, 2007). If companies do not innovate, they die (Chesbrough, 2005). Even worse, if they innovate but focus on the wrong things, they will also perish (Christensen, 1997). What Christensen (1997) means is that companies have traditionally put most effort in improving the performance of the offering, and disregarded innovations that could create value through other constellations. This opens up for new organizations, such as those discussed above, to come in with disruptive innovations and eventually outcompete the incumbents. If companies want to reign forever, instead of dying an inevitable death, they must have structures that enable them to explore possible configurations of offerings downstream in markets, and potentially new (Christensen, 1997; Teece, 2007).

Since the theory of disruptive innovation was properly articulated (Christensen, 1997), researchers and managers have tried to find solutions that will enable the incumbents to create disruptive innovation and new value, and at the same time keep the processes that capture value in the

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5 The author of this paper is included in that category.

6 An incumbent is defined as an organization that is among the biggest in its industry.

7 Offering is used in this thesis as a term for what the organization essentially is offering its customer. It can be a product, a service or both.

8 In short, disruptive innovation is an offering that attracts customers with another feature than performance, it could be convenience, price, mobility etc. It will be discussed in detail in the theoretical frame of reference.
current markets (e.g. Christensen & Raynor, 2003; Chesbrough, 2005; Kim & Mauborgne, 2005; Teece, 2007; O’Reilly III et al., 2009; Ries, 2011). Some of the more popular solution proposed to secure a proper resource allocation to disruptive innovation projects are; spinning out a company (Xerox), moving the project physically away from the head quarters (IBM), having a strong leader (Apple) or systemize resource allocation processes that enables both disruptive and sustaining innovation (IBM). All these solutions have their own pros and they all create different kind of headaches for the companies applying them (e.g. Christensen, 1997; Chesbrough & Rosenbloom, 2002; Christensen & Raynor, 2003; Ries, 2011)

Another approach for a solution could be to look toward business model innovation. The research on business models and their potential impact has increased substantially over the last years (e.g. Amin & Zott, 2001; Osterwalder, 2004; McGrath, 2010). In our ever faster changing environment, the business model concept seems attractive cause it offers managers a more dynamic and less path dependent road than the two dominant perspectives: the resource based view and the perspective of industry positioning (McGrath, 2010). Generating different business models and using discovery driven planning (McGrath & MacMillan, 1995) can help companies explore new potentially disruptive ventures.

A study done by Keeley (2006) also confirms this; figure 1.1. shows that the biggest chunk of value is not created from efforts in the products and service area. Rather, most value is created when reconfiguring profit models, network alliances, enabling processes and improving the customer experience.

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9 The resource based view (RBV) is the concept of looking on which resources and capabilities the organization has, and creating a competitive advantage from those. One could say that Apple is using its design, interface and supply chain-capabilities to break into new markets (music, phones, tablets).

10 The industry positioning view is when a company examines attractiveness in different industries, (for example, by using Porters five forces framework (Porter, 1985)) and then enters the industry of most attractiveness.
Still, organizations seem to be stuck in focusing most of their effort in product performance instead of reconfiguring other parts of the business model. In this thesis three organizations will be explored and examined. They have all created value through big reconfigurations in innovation types other than product performance. The first company is named JaRocka, which is a relatively new (2009) company in the mass photography industry that offers less administration for the photographers and a bigger variety of choice for the potential consumers. Secondly, I will examine OnlinePizza, a highly successful internet company\(^\text{11}\) that operates as an intermediary between restaurants and consumers. This market could be said to be a winner-take-all market (as the search engine market is) since it adds value to the end-customers the more restaurants that are connected to the offering. It also adds value to the restaurants the more end-customers are connected. Lastly, I will study Tekniska Verken, a energy company in Linköping that has several different business units (e.g. Water, electricity, waste disposal). They are of interest because they are highly innovative and because they are in the middle of a restructuring of their business model and innovation processes (Dahl et al., 2012).

**1.1.1. Business Model**

When it comes to defining a business model, I have chosen Osterwalder & Pigneur’s definition, which is;

\(^\text{11}\) Successful to the extent that the three founders recently sold the company to German Delivery Hero for an amount between 250M-500M SEK (Dagens Industri, 2012)
A business model describes the rationale of how an organization creates, delivers and captures value (Osterwalder & Pigneur, 2010: 14).

The thesis will also use Osterwalder’s (2004; Osterwalder & Pigneur, 2010) components of the business model. There are nine of them; customer segments, value proposition, channels, relations, revenue streams, key partners, key activities, key resources and cost structure. They will be explained further in the theoretical frame of reference, and I will come back to them several times. Business Model Innovation is defined in accordance with Markides (2006) explanation:

To qualify as an innovation, the new business model must enlarge the existing economic pie, either by attracting new customers into the market or by encouraging existing customers to consume more. (Markides, 2006: 20)

1.1.2. Creating and Capturing Value

When writing creating and capturing value, I do not mean it in its broadest sense. I am not referring to efficiency innovations that will lower prices and thus letting the organization capture more value, or incremental product innovations, say, moving from cheese doodles to cheese hearts. Rather, my definition is closer to Markides’ (2006) quote above and Kim & Mauborgne’s (2005) definition of Value Innovation.

To be clear, when writing creating and capturing value, I mean; When value is created and captured through redefining a problem an industry focuses on and doing completely new things, or by doing old things in a fundamentally different way.

I also use the term exploratory business models, in which I refer to business models that explores new configurations and tries to create and capture value in the way described above.14

1.2. Research Problem

To be able to prosper for a longer period of time companies need processes that both exploit their current success, and to have processes that explore new ways to create value. Other researchers than Christensen (1997) have brought this into attention (e.g. March, 1991; Abernathy & Utterback, 1978; Bower, 1970; Teece, 2007). March (1991) states that an organization that are successful in the current market will refine its processes even more, in accordance to the environment that made it successful, making it more rigid and vulnerable to changes in the environment. Abernathy & Utterback (1978) argue, that since it is the incumbents that earn the most from a status quo, it will not be them that launch a radical design which will restart the industry’s life cycle. Bower (1970;

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12 A product development that the Swedish snack-company (OLW) recently did.

13 Value Innovation is when organizations make competition irrelevant by creating a leap in value for buyers and themselves (Kim & Mauborgne, 2005: 14).

14 Exploratory is from the term exploration which is the opposite of exploitation (March, 1991).
Bower & Christensen, 1995) promotes a resource allocation theory in which the middle managers will not promote radical, new market, ideas to the top management because it jeopardizes their careers, hence top management only gets to choose from different technological incremental ideas which aligns better with the organizations values and cost structures. The processes that create the companies short-term success thus seem to be the processes that eventually kills the companies.

McGrath discusses the discovery driven approach, where one makes many little investments in different business models (or offerings) that can take off. If they do not seem to take off, the investments in that offering are stopped and opportunities elsewhere are sought. This is a highly experimental approach, and management in organizations that are using it are allowed to explore quite a lot (McGrath, 2010). However, there seem to be a risk in this approach when comparing to theories of exploration and exploitation. Both March (1991) and Gupta et al. (2006) discuss the dangers of having a balance weighted towards exploration; it reinforces more exploration, creating a situation where the explorative organization is likely to drain its resources in too many projects, in addition, it is more likely to leave innovations before they take off. The tension that arises between these two theories is then; for how long should organizations persevere with their new business model, and when should they abandon them?

Another set of theories where experimentation is key, are Silicon Valley entrepreneur Eric Ries (2011) theories explained in his book “The lean start-up”. The theories in the book are starting to have a big impact on both the business community and academia15. The essence of the theory is to build, measure and learn in as fast iterations as possible. Companies from all over the world are implementing the theories discussed in the book (Ries, 2011), but the empiric data the book is based on is questionable at best (i.e. Ries’ own experience). Parallel with this, Osterwalder & Pigneur’s (2010) framework is gaining a foothold in business and academia. The Business Model Canvas16 help companies experiment with potential business models, and works as a good framework for analysis for researchers.

After generating a successful business model, value can be captured through complementary services and add-ons in the value network17. The business model thus grows with the add-ons and can capture value upstream in the market (Chesbrough & Rosenbloom, 2002). The value network that is created around the business model creates a path dependency, since the organization will tend to look for ways to appropriate value in opportunities that arises that matches the value network (Ibid.). If the company fails to align with the value network, it risks not capturing the value it has created.

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15 For example, Ries was offered the position as entrepreneur-in-residence at Harvard Business School.

16 How the nine building blocks of the business model interact and work together.

17 A value network is the context within which a firm establishes a cost structure and operating processes and works with suppliers and channel partners in order to respond profitably to the common needs of a class of customers (Christensen & Raynor, 2003: 44)
Thus, the organizations will have an myopic gaze for opportunities within the network that will hinder it to look for truly disruptive innovation. So when should companies turn their gaze upwards and start experimenting again? And for how long should they let these projects go on? Big innovation theories (i.e. Disruptive Innovation & Blue Ocean Strategy) suggest that numbers should not be the key issue when developing disruptive innovation. However, the discovery driven approach, whilst proposing experimentation and rapid prototyping, it also suggests that projects should be shut down or paused as soon as a milestone is not meet adequately (McGrath, 2010). All theories discussed above add value to business and academia, but they also propose different questions and solutions. They are fragmented pieces of a whole that do not yet exist.

Keeley’s (2006) figure (1.1) show that there is value to be found when looking outside the narrow limits of product performance. The theories of Christensen and his fellows provide a good guideline to detect Disruptive Innovation. However, Christensen’s (1997) theories do not give adequate advice when considering to create new value over and over again. The main proposal to solve this is to spin out new companies (Christensen & Raynor, 2003). The problem is that spinning out will drain the organization on important resources (human and other) (Ries, 2011). Markides (2006), O’Reilly et al. (2009) and Ries (2011) proposes other solutions to solve the dilemma within the organization. Business Model Innovation is mentioned over and over again (e.g. Amit & Zott, 2001; Osterwalder & Pigneur, 2010; Ries, 2011). What is available however, are concepts that only cover some aspects of the whole picture. Chesbrough & Rosenbloom (2002) have theories on how to capture value, Christensen (1997) and Kim & Mauborgne (2005) give insights in new markets and how organizations should be aware of tendencies in industries. McGrath (2010) proposes an approach to be able to juggle several business models at once. Considering the discussion above, it seems that there are plenty of theories that cover topics within the area of research. Nonetheless, they do not provide the full picture. It seems that a holistic picture for new value creation and capture as an iterative process over time seems to be missing when examining innovation and recent business model literature.

1.3. Purpose

The aim of this thesis is to propose a framework that enables organizations to systemize their innovation processes, making them flexible enough to repetitively seize opportunities through business model innovation where new value can be created and captured. This proposed framework aims to enable organizations to start discussing how they should create and capture new value and give them a more pragmatic view on the innovation process. It also aims to act as a starting point for future research.

1.4. Research Questions

• Research Question 1: What could be synthesized from current innovation and business model literature?
• Research Question 2: How have the three case companies successfully implemented and executed their business models?
• Research Question 3: How does the derived factors in the answer of research question 2 align with the synthesis made when answering research question 1?

1.5. Limitations

The thesis will focus on how explorative business models are derived and executed. It will not study how business models can be tweaked a little to gain few percent extra profits in a current trajectory, rather it will examine how to jump to new trajectories. It will neither examine spinning out organizations as proposed as a potential solution to disruptive innovation in the background. Instead it will focus on how companies can create processes that allow the tweaking of old business models go hand in hand with the creation of radically new business models. For the literary synthesis, a bigger focus will be given to innovation literature compared to business model literature, this is due to that the theory in that field is more grounded, they are extremely connected and because I believe value can be added by synthesizing the most interesting innovation theories with recent business model literature. The empirical data will be limited to three companies within Sweden.

1.6. Design of The Thesis

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<tr>
<th>Chapter</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Introduction</td>
<td>The introduction aims to give the reader an understanding of the importance of business model innovation if organizations want to prosper for a longer period of time. Arguments are made for the need of a holistic model when trying to create and capture value iteratively. The three companies of study is briefly introduced.</td>
</tr>
<tr>
<td>2. Methodology</td>
<td>The methodology introduce the method mix (based on Palvia et al., 2004 and March &amp; Smith, 2005) used to gather theoretical and empirical data. There the choice of companies is explained. Also, arguments for the choices made concerning qualitative research strategies and philosophies are explained.</td>
</tr>
<tr>
<td>3. Theoretical frame of reference</td>
<td>This chapter is first divided into three parts: Creating value is not that simple, creating and capturing value through reconfiguration and reconfiguration through business model innovation. These parts are meant to give the reader an understanding of the processes that hinder companies to create new value, as well as theories that can help organizations to create and capture new value. Lastly, the theories and concepts are brought together into a model in the last subchapter, called: “Synthesis of theory”.</td>
</tr>
<tr>
<td>4. Data</td>
<td>The three companies of study are examined and explored in separate subchapters. Structurally, the subchapters are divided into a discussion on the processes that enabled the business models to emerge. Then the actual business model is presented. Lastly, quotes relating to key areas, from the interviewees, are displayed.</td>
</tr>
<tr>
<td>5. Analysis</td>
<td>The cases will be compared in the analysis and factors will from the data gathering will suggest shifts in focus in the proposed model from chapter 3. The framework will be presented along with tools to help organization create and capture new value.</td>
</tr>
<tr>
<td>6. Discussion</td>
<td>Possible implications for the derived framework will be discussed. Both for organizations and future researchers.</td>
</tr>
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*Table 1.2. Design of thesis.*
2. Methodology

This methodology chapter will focus on what has been done in order to adequately answer the research questions of the thesis\(^\text{18}\). The choices made will be argued for. However, I will not go into an deeper discussion about the alternatives I have disregarded, except in the methodological discussion. One can argue that this thesis is more towards the exploratory research direction. The research questions, in short, are to synthesize innovation and business model literature, look at how companies use business models to create value and synthesize the information from the first and second question into a framework. Hypotheses and implications for future research are presented in the end of the thesis. Note that the first the framework presented in the theoretical frame of reference, is built only on the theories. The ultimate aim is to build a framework from theories and data, and that framework will be presented in the end of the analysis.

2.1. Methodological Discussion

2.1.1. Epistemological perspectives

There are three views of philosophy worth mentioning when discussing different epistemological\(^\text{19}\) and ontological\(^\text{20}\) perspectives; positivism, Interpretivism and post-positivism.

Positivism sees the world as objective and independent of our subjective experiences. One of the criteria in positivism is that science must be conducted in a completely objective manner and when having conducting a work in a positivistic style, one generates hypotheses and then test them (Bryman & Bell, 2007). This natural science model of studying societal issues can be problematic since the environment is constantly changing, and what worked yesterday may not work today. Since testing hypotheses without risk for subjectivity, the positivistic research is most often deductive and quantitative in its nature (Bryman & Bell, 2007).

Interpretivism is the contrasting epistemology to positivism;

“[Interpretivism] is predicated upon the view that a strategy is required that respects the differences between people and the objects of the natural sciences and therefore requires the social scientist to grasp the subjective meaning of social action” Bryman & Bell (2007: 19)

\(^{18}\) The chapter is mainly based on three sources of information, and they deserve an acknowledgement. First, Bryman & Bell’s business research methods’ serves as a foundation for the entire chapter. Second, methodological ideas and sources to create a framework have been taken from Osterwalder’s (2004) dissertation where he laid the foundation for his & Pigneur’s (2010) ‘business model canvas’. Lastly, I have been inspired by the methodological chapter that me and my partners wrote in my last thesis (Dahl, et al., 2012).

\(^{19}\) Epistemology is referring to the question of what is, or should be regarded as acceptable knowledge (Bryman & Bell, 2007)

\(^{20}\) Ontology raises basic questions about reality; what is it we see?
In interpretivism, there is no objective knowledge, rather the knowledge is gathered through many different subjective experiences. According to Ödman (2004) there are four main elements to interpretivism; interpretation, pre-understanding, understanding and explanation. Interpretation and understanding of the data suggests that the approach usually should be inductive and qualitative.

The last epistemological perspective to be described is post-positivism, a perspective that has some of the traits from positivism but recognizes that research cannot be entirely objective, since the researcher get influenced by theories, knowledge and values when observing things (Colin, 2002). Thus, there is an objective world out there, but the knowledge of it is filtered through the experiences of others (e.g. through paradigms).

This thesis epistemological approach has traits of both interpretivism and post-positivism. When creating the framework I have been aware that I have been looking through the lens of different theories and concepts, whereof some are derived from subjective interpretations. Though that it would be possible to create the proposed framework from a positivistic approach, I think that this hypothetical framework would contribute less to academia because it would not be able to point in as many interesting directions as the presented framework does.

2.1.2. A Deductive Approach and a Qualitative Strategy

In this thesis the first research question sets the approach of the thesis, and the second sets the strategy for collection of the data. The first question is: "What could be synthesized from current innovation and business model literature?", meaning that the thesis essentially is built around the framework derived from the theories in chapter 3. Thus, the approach of the thesis has deductive tendencies. A deductive approach means that the researcher starts with a theoretical foundation and moves forward with collection of data, often to test what is created in the theoretical foundation (Bryman & Bell, 2007). The opposite is an inductive approach, where one starts looking for problems and solutions in the empirical data, and then complements with theory. It is very difficult to use a completely deductive approach (or vise versa) since the thesis is somewhat of an iterative process. Bryman & Bell (2007) argues that one can only look for deductive and inductive tendencies, and looking at how this thesis is built, the tendencies are deductive.

With a deductive approach, the general notion is to have a quantitative strategy (Bryman & Bell, 2007). However, the second research question [How have the three case companies successfully implemented and executed their business models?] suggests that I need a strategy that will give me a deep understanding of the company in question. Sverke (2004) points out that researchers can miss possible solutions or explanations to different phenomenon because they cannot be quantified. Considering how much that could get lost if I had to try to quantify topics such as
noncustomers, customer experience and information flows, I deemed that a qualitative strategy\textsuperscript{21} would be the best strategy to produce the most correct knowledge of reality.

2.2. Research Design and Overarching Outline

2.2.1. Comparative Design

A research design is the structure that guides the execution of a research method and relates to the criteria that are employed when evaluating business research. It is a framework for the generation of information that is suited both to a certain research strategy and to the research question in which the researcher is interested (Bryman & Bell, 2007; Dahl et al., 2013).

Because of my aim, I chose to use a comparative design\textsuperscript{22}. The comparative design allows for finding similarities and differences to gain a greater awareness and understanding in different contexts (Bryman & Bell, 2007). They further argue that:

\begin{quote}
The key to the comparative design is its ability that it allows the distinguishing characteristics to act as a springboard for theoretical reflections about contrasting cases. (Bryman & Bell, 2007: 69)
\end{quote}

This aligns well with the purpose of the thesis, because it then can help the framework derived from theory with new insights from different companies, in different contexts.

2.2.2. Creating the Framework

Since the aim of the thesis is to build a framework on how to create explorative business models, inspiration for a methodology have been sought from research that have built frameworks. Like Osterwalder (2004) did in his dissertation, I combined the methodologies I used\textsuperscript{23} with the cells used in March & Smith’s (1995) research framework.

March & Smith (1995) developed a research framework consisting of two dimensions: research activity and research output. Each dimension has four categories. Research activity consists of build, evaluate, theorize and justify the artifact\textsuperscript{24}. This thesis limit it self to the build and evaluate categories. When building an artifact the basic question is; does it work (March & Smith, 1995)? And when evaluating the artifact, the basic question is; how well does it work (Ibid.)? Research output consists of constructs, model, method, and instantiation, also here, the thesis limits itself to the first two, constructs and model. Constructs are defined as concepts from the vocabulary of a

\textsuperscript{21}A qualitative strategy focus on the meaning of words whilst a quantitative strategy tries to quantify the collected data into numbers (Bryman & Bell, 2007)

\textsuperscript{22}A comparative design involves using more or less identical methods of multiple contrasting cases (Bryman & Bell, 2007)

\textsuperscript{23}Definitions are from Palvia et al’s (2004) table of MIS methodologies.

\textsuperscript{24}Artifacts are objects or products created by humans and design and used by people to meet re-occurring needs or solve problems. (Wikipedia, 2013b)
domain, they constitute a conceptualization used to describe problems within the domain and specify their solutions (March & Smith, 1995). And a model is defined as “a set of propositions or statements expressing relationships among constructs. A model design activities, models represent situations as problem and solution statements” (Ibid.).

When building constructs, the goal has been to find, review and analyze concepts that are of high importance when creating new value through business model innovation. Building the model has been about synthesizing these constructs into an model that allow organizations to systematically create explorative business models. To evaluate the constructs, I have investigated related concepts in other theories and crosschecked if they have been used in the case companies. The same has been done when evaluating the model, there I have also crosschecked how the different companies have been able to create value, and if the steps are similar to the steps proposed in the model. A table of the methodologies used when building and evaluating the constructs and the model is displayed in table 2.2., in the end of this subchapter.

When creating the framework a lot of theories in innovation and business model literature was revised. I have strived to work with established theories that are confirmed by a large empirical data, however, the business model literature and innovation theories are highly “in fashion” with managers as well as with academics, and some of the literature reviewed are in more speculative in its nature. For example, a relatively big building block of the framework, Ries (2011) theories on how startups should create value, could be classified as speculative. Osterwalder & Pigneur’s (2010) business model canvas, thought it is built on Osterwalder’s (2004) strong theoretical foundation, one can argue how much empirical data that supports their theories. To both Ries’ (2011) and Osterwalder & Pigneur’s defense, big internet-communities are emerging that try to implement the theories, and thus, generate a substantial amount of data (e.g. http://businessmodelhub.com/ and http://lean-startup.meetup.com/). More of what theories have been chosen is discussed in the theoretical frame of reference.

Below are the methodologies derived to fulfill the purpose. Note that I freely put the thesis’ research design [Comparative case-studies] as a synonym to field study. Though they are not the same, the definition still aligns with the comparative study I have conducted (i.e. studied processes around the creation of explorative business models in multiple companies). Presenting it in this manner, all credit for the table can go to Palvia et al.’s (2004) categorizing and definitions.

<table>
<thead>
<tr>
<th>Methodology</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Speculation/commentary</td>
<td>Research that derives from thinly supported arguments or opinions with little or no empirical evidence.</td>
</tr>
<tr>
<td>Frameworks &amp; Conceptual models</td>
<td>Research that intends to develop a framework or a conceptual model.</td>
</tr>
<tr>
<td>Library research</td>
<td>Research that is based mainly on the review of existing literature.</td>
</tr>
<tr>
<td>Library Analysis</td>
<td>Research that critiques, analyzes, and extends existing literature and attempts to build new groundwork, e.g. it includes meta-analysis.</td>
</tr>
</tbody>
</table>
### Methodology

<table>
<thead>
<tr>
<th>Methodology</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Field study (comparative case study)</td>
<td>Study of single or multiple and related processes /phenomena in single or multiple organizations.</td>
</tr>
<tr>
<td>Interview</td>
<td>Research in which information is obtained by asking respondents questions directly. The questions may be loosely defined, and the responses may be opened ended.</td>
</tr>
<tr>
<td>Secondary data</td>
<td>A study that utilizes existing organizational and business data, e.g. financial and accounting reports, archival data, published statistics, etc.</td>
</tr>
</tbody>
</table>

*Table 2.1. The methodologies used in this thesis. Based on Palvia et al’s (2004) MIS methodologies.*

Combining the Palvia et al.’s (2004) methodologies with the research outline described in table in the first paragraphs of the subchapter result in table 2.2., which guided me in what methodologies I was suppose to use when answering the research questions. Table 2.2. sets the foundation for my data collection and theoretical frame of reference.

### RESEARCH ACTIVITIES

<table>
<thead>
<tr>
<th>Constructs</th>
<th>Build</th>
<th>Evaluate</th>
<th>Theorize</th>
<th>Justify</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Speculation</td>
<td>Comparative case study</td>
<td>Interviews</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Library research</td>
<td></td>
<td>Secondary data</td>
<td></td>
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<tr>
<td></td>
<td>Literature analysis</td>
<td></td>
<td>Literature analysis</td>
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<td></td>
<td>Conceptual research</td>
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<tr>
<td></td>
<td>Comparative case study</td>
<td></td>
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</tr>
<tr>
<td>Model</td>
<td>Speculation</td>
<td>Comparative case study</td>
<td>Interviews</td>
<td></td>
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<tr>
<td></td>
<td>Library research</td>
<td></td>
<td>Secondary data</td>
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<tr>
<td></td>
<td>Literature analysis</td>
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<td>Literature analysis</td>
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<tr>
<td></td>
<td>Conceptual research</td>
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</tr>
<tr>
<td></td>
<td>Comparative case study</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Method</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Instantiation</td>
<td></td>
<td></td>
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</tbody>
</table>

*Table 2.2. Method mix. Adapted from Osterwalder (2004), based on Palvia et al. (2004) & March & Smith (1995).*

### 2.3. Research Method

According to Patel and Davidsson (2011) a research method is the way a researcher chooses to collect the appropriate data, necessary for answering the chosen research questions (Dahl et al., 2013). Table 2.3. has been done to more easily get an overview of how the data was collected and what research methods were used:
<table>
<thead>
<tr>
<th>Step 1. Information gathering of business models before main interview</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Observations through work assignments.</td>
</tr>
<tr>
<td>• Interviews in a previous research assignment (face-to-face and telephone)</td>
</tr>
<tr>
<td>• Informal talks with co-owners</td>
</tr>
<tr>
<td>• Financial data</td>
</tr>
<tr>
<td>• Observations through use of service</td>
</tr>
<tr>
<td>• Study when considering to launch a competing offering</td>
</tr>
<tr>
<td>• Informal talks with restaurant owners</td>
</tr>
<tr>
<td>• Company documentation</td>
</tr>
<tr>
<td>• Financial Data</td>
</tr>
<tr>
<td>• Interview and questionnaire in a previous research assignment</td>
</tr>
<tr>
<td>• Lecture from business developers</td>
</tr>
<tr>
<td>• Informal talks with project manager</td>
</tr>
<tr>
<td>• Annual Reports</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Step 2. Visualizing flows in business model from information gathered in step 1.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Step 3. Conducting Main interview (face-to-face) with &amp; time:</td>
</tr>
<tr>
<td>Co-owner and platform developer, 1:00h</td>
</tr>
<tr>
<td>Co-founder and in charge of product development, 1:48h</td>
</tr>
<tr>
<td>Two business developers whereof one also is a member of the innovation council, 1:21h</td>
</tr>
</tbody>
</table>

<table>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Step 5. Conducting interviews (face-to-face) to crosscheck information gathered in step 1 and 3. With &amp; time:</td>
</tr>
<tr>
<td>Co-owner and CEO of JaRocka and photographer connected to the service, 0:28h</td>
</tr>
<tr>
<td>Restaurant owner connected to the OnlinePizza's network, 0:28h</td>
</tr>
<tr>
<td>Head of the energy division, part of overarching management and member in the innovation council, 0:35h</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Step 6. If new questions arose, reestablishing contact with main interviewee and questioning him/her again:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes (face-to-face)</td>
</tr>
<tr>
<td>Yes (face-to-face)</td>
</tr>
<tr>
<td>Yes (Mail)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Step 7. Making final adjustments to visualization and mapping a business model canvas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Step 8. Sending quotes and visualizations to main interviewees to get confirmation and approval on the translations.</td>
</tr>
</tbody>
</table>

**Table 2.3. Methods when gathering empirical data**

As seen in the table, different efforts were made in each company before conducting the main interviews, this approach perhaps strays from the rules of comparative design towards a more multiple case-design. The risk of gathering data differently could decrease comparability between the cases. However, I felt that this step would enrich the data substantially, and was therefore included in the thesis. The main idea of step 1 was to get a clear idea of what was going on in the company, business model-wise, before entering the interview-phase. Thus, I would be able to ask questions on a higher level. As can be seen in the table, there are several of methods used in this phase. For JaRocka, observations of ease of use and convenience of the service were done whilst performing work assignments for them, their business model was mapped in a school project that ran parallel with this thesis (Garcia et al., 2013). OnlinePizza's structures were studied earlier due to a possibility to launch a competing offer, observation about ease of use, convenience and parts of the profit model was done through usage of the service. Tekniska Verken’s innovation structures
were mapped out in my previous master thesis (Dahl et al., 2012) and during the fall of 2012 when we were given a lecture about the companies processes by business developers Jakobsson & Kollberg.

In all three cases financial data, as well as data about size and number of customers were retrieved before the main interview. In Tekniska Verken’s case, it was from their annual report (Tekniska Verken, 2012), in OnlinePizza’s case it was from allabolag.se (Allabolag, 2013b) and from their own documentation (Pizzarapporten, 2012) and in JaRocka’s case, it was from allabolag.se (Allabolag, 2013a) and from the interviews conducted with Strömqvist (2013a; 2013b) for Garcia et al.’s (2013) research project. In all three cases informal talks with people connected to the each company were done to increase the understanding for the companies. After this was completed, a preliminary visualization was done to help guide me through the main interviews (see appendix 2 and figure 4.4., 4.8. and 4.13 on the contrasts before the first and the last visualization).

When using documents as a source of data Scott’s (1990) four criteria have been taken into consideration. They are; authenticity, credibility, representativeness and meaning. When judging the documents used, these criteria have been in mind when assessing.

There was one main interview done in each company, the goal of was to get out information about business model innovation and how the company was structured in order to create and capture new value through business models. A table of questions was formed beforehand with questions related to the theoretical framework derived in chapter 3. The interviews could be classified as somewhere between a semi-structured character and a unstructured character (Bryman & Bell, 2007). The questions derived created the basis for the interview, however, I strayed from the questions when an opportunity to discuss something interesting, of potential value, arose. The sequence of the questions was not the same from interview to interview, and a couple of questions were aimed specifically at the case company. The interviewees started the interviews with explaining their business model (structure in Tekniska Verken's case) and thus answering questions before they were asked. When comparing cases like I did, it is important to have some structure in the interviews due to comparability between the cases (Bryman & Bell, 2007). All interviews were recorded and transcribed in order to not forget parts of the interviewee’s answers, and to better examine the interviewee’s answers, something Bryman & Bell (2007) also argues for.

After transcribing and processing the main interviews (e.g. through visualization) an additional interview for each company was made with persons connected to the company in question to cross-check the information gathered in step 1 and 3, it also gave me an opportunity to get further knowledge and different perspectives to the value creation through business model innovation in each company. These interviews further increase the validity since they gave a different perspectives and another source of information. All interviews were made face to face, thus increasing my chances to interpret the interviewee correctly, since I could take body language into consideration. The interviews were all conducted in Swedish and the quotes are freely translated from Swedish to English, they are translated freely since the real meaning sometimes get lost in a
direct translation, and because the sentence structure is somewhat different when comparing Swedish with English. I feel comfortable with the free translation since I interviewed them face to face and thus interpret more than just the words.

Going back to the purpose, I argue that these methods enabled me to get a deep insight on what created and captured value in each company, and how the companies were structured to do so.

The method used (table 2.3) helped me counter potential biases and reduces impact a single interviewee could make. Since all main interviewees still work at the companies in question, there was a potential risk that the they would enhance the “good” truths and keep the “bad” truths from me. By preparing the way I did in step 1, I could crosscheck the data from documents with the interviewees. Lastly, they main interviewees information (and potentially false truths) was crosschecked with an additional interview. By doing the steps in table 2.3., I have reduced the impact of the interviewees, been able to go deeper into the interviews and counter potential biases.

2.4. Research Sampling

When deciding which companies that should be chosen for the study, the main criterion was that it had to be organizations that had created and captured new value through business model innovation. This means that the population is extremely big, every organization that successfully has launched a business model radically different than their competitors would fit in the study. Another criterion in that should be common among the companies of choice, was that they are looking for new ways to create value now. By expanding the business model in new directions, or by creating completely new business models.

JaRocka did this by radically changing the business model in the mass photography industry, changing almost every component in the business model (see components in chapter 3.3) (See JaRocka's progress in 4.1.). OnlinePizza created and captured new value by stepping in as an intermediary between the consumers and restaurant owners, increasing revenue and decreasing administration for the restaurant owners, and increasing simplicity and convenience for the consumers (Chapter 4.2). Tekniska Verken has done this various times through different reconfigurations in different divisions (energy/waste disposal, light post casting, see chapter 4.3).

To increase generalizability, I chose to study companies that were in different stages in their lifecycle, in different sectors, and were different in size. The idea was that JaRocka can be where OnlinePizza is now in ten years, and OnlinePizza can be where Tekniska Verken is now (with several divisions and separate business models) in ten years. By comparing three companies that had achieved the same thing but in different sectors and sizes, I would be able to pick up tendencies were they thought the same about creating and capturing value, as well as differences in their thinking. Hence, the framework would have greater chances to be correct when having analyzed companies in different contexts. Figure 2.4 tries to illustrate the different criteria.
The character of the sampling can be classified as non-probability sampling. The companies where chosen because they met the criteria discussed above. They were also chosen because I had previous knowledge of them, and that I were allowed access to interviews and documents, i.e. it was a convenience sampling. When selecting the interviewees I used purposive sampling, meaning that I did not chose people randomly from the companies, instead I chose people that I knew had relevant knowledge about the topic. This kind of non-probability sampling creates dilemmas when trying to create definite findings (Bryman & Bell, 2007). However, it could provide a springboard for further research (Ibid.). Considering that the purpose is to propose a framework, I argue that exploring factors and tendencies with these companies will give more to the framework than if the companies were selected randomly. The goal of the framework is not to be a definite finding (in this thesis at least) rather, it aims to be a springboard for new insights and findings.

2.5. Research Quality
It has been a goal to achieve high research quality throughout the thesis. Three criteria are commonly stressed when assessing research quality: reliability, replication and validity (e.g. Bryman & Bell, 2007; Frankfort-Nacmias & Nachmias, 2006; Punch, 2005).

Reliability
The different methodologies when initiating the data collection, combined with interviews that have different perspectives strengthen my reliability. A tool that I have used to increase reliability and trustworthiness of the data gathered is by respondent validation, meaning that I have given the main interviewees the data derived from the interviews so that they themselves can question the data, this gave me a good dialogue with the interviewees what really was happening in their company when considering business models.
Replicability
I have provided a clear visualization of my research outline (table 2.1) and how I gathered my data (table 2.3). There is also an appendix (appendix 2) of the questions on which the main interviews were based, transcriptions are available and the criteria of which I chose the case companies have been made clear. By doing all this, I hope that the process is replicable for future researcher. With that said, the methodologies conducted in the first step may be hard to replicate, and semistructured interviews will be different if another researcher conducts them (because of values, thought processes, etc). Bryman & Bell (2007) also argue that there often are problems with replicability in qualitative research, such as fuzziness over how the researcher arrived to the conclusions. I have had this in mind, and tried to guide the reader through my process throughout the thesis.

Validity
Bryman & Bell (2007) discuss internal validity and external validity. Internal validity is judged on whether it is a good match between the researchers’ observations and the theoretical ideas developed. External validity refers to the degree to which the findings can be generalized (Ibid.). Many of the constructs built relate to structures and thought processes in the case companies, (as you will see in the next coming chapters) thus, I argue that the thesis has a high internal validity. Regarding generalizing, Bryman & Bell (2007) state that this could be a problem in qualitative research since it is most often built on small samples and non-probability sampling. This is the case in this thesis as well, as discussed in the sampling chapter. However, I do not see this as a big problem since the main goal with the framework is to enable academics and managers to test and validate it in future studies. With that said, as shown in the sampling, great efforts have been made to increase generalizability by gathering and presenting three different cases.

2.6. Research Ethics
Diener and Crandall (1978) created four ethical areas that I tried to follow when I interviewed the interviewees. In negatives, they are; harm to participants, lack of informed consent, invasion of privacy and deception. The data gathering has been made to avoid harm, get consent, avoid invasion of privacy and avoid deception, the paragraph below shows the process in which I tried to create a safe ethical environment.

Before each interviewed I made clear what I was researching and why I had chosen the interviewees’ company, and them. The interviewees were informed that the interview was recorded and later would be transcribed and freely translated into English. I also informed the interviewees that they could withdraw comments that were classified, if something like that accidentally slipped out during the interview. As discussed before, the interviewees got access to the quotes I chose to publish, so that they would get the opportunity to question them, and withdraw them, if the quotes did not represent what they meant. The interviews were held at the interviewees companies, and they got to choose the time for the interviews. Thus, they were more or less unaffected by the visit,
they got the chance to correct their quotes if there was something that did not match and hopefully felt that I did not deceive them.

2.6.1. Objectivity
As the pre-study of the case companies show, I have had different relations to the companies. My aim is to present an as good thesis as possible, and I have no incentives to either make the companies look better or worse. However I have had this fact in mind when I have gathered and presented the data, so that I would keep my objectivity, and question it if something seemed odd, or uncomfortable to write.

2.7. Data Analysis
The methodologies proposed in table 2.2 are the methodologies used to analyze the framework. As March & Smith (1995) suggest, a model will be built from constructs and then evaluated in a two-step process towards theorizing and justification. To specify the process with an analytic framework, the method used in this thesis have tendencies toward Bryman & Bell's (2007) definition of analytic induction. They define analytic induction as “an approach to the analysis of data in which the researcher seeks universal explanations of phenomena by pursuing the collection of data until no cases that are inconsistent with a hypothetical explanation (deviant or negative cases) of a phenomenon are found” (Bryman & Bell, 2007: 583). Further they argue that the process consist of steps such as: a rough definition of research question, hypothetical explanation of research question, examination of cases, looking for deviant cases, and if found, reformulate the hypothesis, and then examine the cases again to see if the new hypothesis can be confirmed (Bryman & Bell, 2007).

My process have not been that rigid. However, it can be argued that the model presented in chapter 3.4. is a form of a hypothesis. The rest of the thesis then follows the process through first examining if companies work as is proposed in the framework. The entire analysis is then a process of reformulating the hypothesis, strengthening some factors proposed, adding some, and subtracting others. The end-hypothesis is then presented as the framework.

The data analysis has also been inspired by Miles and Huberman's (1994) framework for qualitative analysis. The authors (1994) suggest three factors when conducting one's analysis; data reduction, data display, and drawing and verifying conclusions. Data reduction is about selecting, focusing, simplifying, abstracting and transforming the data. Data display is suppose to provide an organized form of the collected data that permits conclusion drawing and analyzing (Miles & Huberman, 1994). Step 1 (table 2.3.) has been reduced into visualizations (appendix 3) that provided a basis for the interviews. The interviews where first transcribed, then the most interesting quotes where selected and translated into english. From that, the quotes with the highest relevance where either embedded in the case stories or displayed in tables in the the end of each case's subchapter. The outcome of the interviews were also displayed by visualizing the flows of the business model. This in order for the reader to draw his or hers own conclusions about how the business model created
and captured new value. Further, the quotes, models and case-stories are then contrasted in the different tables in the analysis. Giving the reader a chance to make up his or hers own mind when reading my arguments for the new framework. The third step is verifying and drawing conclusions. Data reduction and display are suppose to help the researcher drawing conclusions. Together with table 2.2., my reduction and display of data have helped me substantially with these. This will be shown in the following chapters.
3. Theoretical frame of Reference

The theoretical frame of reference will begin with a discussion on the problems with creating new value. The purpose of this discussion is for the reader to get a grasp of what overarching innovation theories are proposing to do on an organizational level. Then, the two main innovation theories chosen - Disruptive Innovation and Blue Ocean Strategy - will be reviewed and analyzed with reconfiguring the factors of competition and search for new value in mind. From that, I move explicitly into business model generation and execution. Osterwalder’s (2004; Osterwalder & Pigneur, 2010) business model components are reviewed and deeper discussions on how to create value through business model innovation are articulated. Lastly, I will synthesize the theories discussed, making connections between the theories and propose a way for companies to iteratively work to create new value. On the next page table 3.1. have been created to get an overview over the main theories discussed and the most important parts that will be extracted from them into the synthesis. As can be seen in the table, there are parts that come back from different theories. This is because these factors are worth mentioning again, seen from different angles and perspectives.
<table>
<thead>
<tr>
<th>Theories, Frameworks &amp; Concepts</th>
<th>Authors</th>
<th>Important parts</th>
</tr>
</thead>
<tbody>
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| Creating & Capturing Value Through Reconfiguration  |                                              |                                                                                 |
| Disruptive Innovation                               | Christensen, 1997; et al., 2003; 2004         | Basis of competition, reconfiguration, creating new markets, disrupting present markets, customer preferences, fringe customers |
| Blue Ocean Strategy                                  | Kim & Mauborgne, 2005                         | Reconfiguration, customer tiers, factors of competition, creating new markets   |

| Reconfiguring Through Business Model Innovation      |                                              |                                                                                 |
| Business Model Canvas                                | Osterwalder(2004) & Pigneur, 2010             | What the components of an business model are, how companies can work with components |
| Ten types of Innovation                              | Keeley et al, 2013                            | Effort vs result in value creation, user experience, profit models, network alliances |
| Discovery Driven Approach                            | McGrath, 2010                                 | Experimenting, learning, stopping, milestones, path dependency                  |
| Lean Start-up                                       | Ries, 2011                                    | Experimenting, learning, reconfiguring factors, measuring, stopping            |
| Capturing value through business models              | Chesbrough & Rosenbloom, 2002                 | Value network critical to capture value, value network creates myopic vision in value creation |
| Value creation through business model innovation     | Amit & Zott, 2001                             | Value creation, Lock-in, complementaries, reconfiguration                       |
| Ambidextrous Organization                           | O’Reilly III et al. (2009)                    | Innovation accounting, strong leadership, change of culture                     |
| Dynamic Capabilities                                | Teece (2007)                                  | Sense and seize opportunities, transform organization to align with new opportunities |
| Open Innovation                                     | Chesbrough, 2003                              | Network alliances, innovation outside company                                    |

Table 3.1. The main theories on which the synthesis is built.
3.1. Creating new value is not that simple

Exploration and Exploitation

Creating new value is not as simple as we wish. As discussed in the introduction, it is very easy to become path dependent, and stuck on one business model, or product trajectory. Success leads to local optimization, refining the processes and products that work, and potentially missing out on other trajectories that has more potential (March, 1991; Gupta et al., 2006). March (1991; March & Weil, 2005) discussed the creation of new value and the capture of current value in the terms of exploration and exploitation. The essence of exploration is experimentation with new alternatives, searching for radically new ideas, concepts, markets or relationships (March, 1991). Exploration makes organizations more apt to the changing environment. Exploitation, in essence, is the refinement and recombination of existing ideas, processes, competencies and technologies. Exploitation is essential for an organization to be successful in the current environment, for example by improving current offerings to outcompete the competitors, and by keeping the learning curve as fast and short as possible to keep costs down (March, 1991). To be able to be successful in the long run one must have a balance between these two. March & Weil (2005) sum up the definitions and dilemmas of exploration and exploitation nicely in a short paragraph:

*Exploitation is based on the efficient use of existing skills. It produces reliable results but runs the risk of sidelining more promising alternatives. Exploration consists of looking for new possibilities, at the risk of not looking at them closely enough to gain the full benefits of mastering them. The optimal mix between the two mainly depends on the stability of the environment and the time horizon. (March & Weil, 2005: 29)*

Figures 3.2. and 3.3. tries to illustrate this. 3.2. illustrates an organization in an competency trap, trapped in a local optimization instead of a holistic optimization (Levitt & March, 1988). Costs of changing trajectory, profit margins, and/or processes does not align with the organizations values, thus they keep refining the design and competencies to capture value on the current trajectory, which then leads to further unattractiveness of new trajectories (March, 1991). To further clarify with an example; this is what happened to Facit, the Swedish mechanical calculator manufacturer, that once was the biggest in the world on calculators. Electronic calculators came into the market via Japanese manufacturers, but Facit instead opted on refining product performance around the mechanical calculator, eventually turning them obsolete (Sandström, 2008).
On the other hand, if an organization is too explorative it risks emptying its resources in several projects that never get the chance to take off. This is due to a couple of reasons; firstly, explorative activities often have longer time horizons before they pay off (March, 1991). Secondly, having too explorative tendencies often means that you risk leaving concepts and processes before they have had the chance to develop into something good (March & Weil, 2005), thus being too explorative reinforces more exploration since concepts, processes or offerings are passed off as failures, before they have the chance to grow into something good, and new areas are explored instead (March & Weil, 2005; March, 1991). In figure 3.3., the company never gives the business model a chance to develop, but instead jump ship when they see something new and shiny. This is important to have in mind when later evaluating the proposed framework. Since it will allow organizations to create or jump to new trajectories more easily, one must restrain from switching to often, and instead give the business model some time to grow (March & Weil, 2005).

Figure 3.2. The too exploitive firm. Staying on the old trajectory because of previous success.

Figure 3.3. The too explorative firm. Starting and stopping projects before they take off.
Another relevant concept is the one of dominant design (Abernathy & Utterback, 1978; Utterback & Suarez, 1993). Firms start competing with different designs when an technological discontinuity is created, different offerings and business models are then created from this discontinuity. From the initial choices made, other alternatives are developed to capture more value than the initial one. From the variety of choices, one design will eventually stand out, because the design captures more value, or because it manages to lock in customers and suppliers in a better way (Utterback & Suarez, 1993). McGrath (2010) provides an excellent example of the emergence of a dominant design from a modern view: advertising supported internet searches. Companies have been trying to capture value from text-based searches for decades. In the 1970s with manual searches and a pay per transaction revenue model, to semi-automated searches, with the same revenue model to new solutions when the internet expanded. In the beginning of the internet era companies tried to get paid from the search itself, thinking that it was the thing customers valued. When that approach showed to be ineffective, actors tried to get paid through a subscription model, where the customers paid a fee each month to get access to the search engines. Later Yahoo! came up with the idea to pay for the searches with advertising that outcompeted the other designs and created a “dominant” one. It was after this break-through Google came along and improved the algorithm that ranked web pages in the searches (Ibid.), as well as introducing (acquiring) the ingenious AdSense that allowed a smarter profit model through pay-by-click. Figure 3.4. show how a dominant design like advertising supported, self-reinforcing can emerge. It is highly path dependent, and based on experimentation done by others in the past. Relating McGrath’s (2010) example to the figure, different trajectories leading down to Google’s model then is; pay per search experimentation leads to experimentation with subscriptions, which proves worse than a advertising based profit model, which in turn is refined by better algorithms and a innovative pay-per-click model.

![Figure 3.4](image)

*Figure 3.4. A dominant design takes form from an array of choices. (Adopted from Utterback & Suarez, 1993)*

Connected to the Dominant Design-concept is Abernathy & Utterback’s (1978) industry life cycle concept (see figure 3.5). They (1978) argue that an industry life cycle consists of three stages; the first where one can detect a fluid pattern, then a transitional pattern and the last is the specific
pattern. In the fluid pattern many firms compete with each other with different radical designs and the market has not yet decided on what niche will be the winning one, product innovation is high in the fluid phase (Abernathy & Utterback, 1978). In the transitional phase a dominant design is emerging, product innovation is becoming more incremental, and process innovation is increasing, connected to the text-search example above, it is the moment where Yahoo! and Google develop the seemingly best business models. Companies that bet on the "wrong" features are being forced out by the market. The last stage, the specific pattern, is characterized by cost reductions and process innovation, even more companies are forced out and a few big players that can use their economies of scale remain in the industry (Abernathy & Utterback, 1978). The focus on cost reduction continues until a discontinuity occurs in the industry, this is illustrated in figure 3.5. The discontinuity is something that radically changes the industry or the market: it is often something put together from several innovations used in different markets and industries (Utterback & Suarez, 1993). The discontinuity restarts the patterns of the life cycle and reshapes the industry (Ibid.).

Thus, Abernathy & Utterback (1978) and Utterback & Suarez (1993) theories also strengthen the argument that the current companies in the industry has the least to gain to change from the status quo. If there is a paradigm shift somehow, they will have to compete with new companies, and develop new designs where the outcomes of success and profitability are highly uncertain. The status quo will, however, be shook up, sooner or later (March, 1991; Gupta, 2006). To prosper for a longer period of time, the companies must be able to adapt to the environment (Ibid.). Figure 3.6. connects figure 3.4. and 3.5. to explicitly illustrate the loss of different trajectories when a dominant design is chosen. As soon as a dominant design emerge, the amount of firms in the industry drop. A few big actors scale up and push out the other entrants that had different designs in different
niche markets (Utterback & Suarez, 1993; Markides, 2006). The era of ferment is then over, and an era of incremental change follows.

Comparing the figures when discussing dominant design with the figures made to illustrate the effects of exploration and exploitation in the beginning of the chapter; there is a contrast in displaying different trajectories. In figure 3.2, it seems obvious that the company must jump to a completely new trajectory to not get trapped in a suboptimal equilibrium, whilst developments with different profit models and new ways to search seem to be on degrees of the same trajectory. And then a major jump to something new should be done when something very big changes the environment. However, every intersect to new branches provide new trajectories where reconfiguration to create new value through reconfiguring assets and components into something different. Yahoo! used a profit model previously used in different industries, but not though of in the text-search business, and Google radically improved the user experience by an algorithm that actually showed results with strong connections to the search. Thus, new trajectories where new value can be found can come from reconfiguration from old technologies, as well as technological discontinuities.

**Resource Dependence and Resource Allocation Processes trap the organizations**

Above it has become clear that success and short-term incentives not to invest in changing trap companies on the same trajectory in a quest for sub-optimization. Still, when organizations are aware of the problem, and want to adjust it, there are forces that are hindering them. Pfeffer & Salacik (1978) launched a theory of resource dependence; claiming that it is forces outside the company (mainly customers, but also investors) that set the direction in which the company will move. Organizations survive and become successful by having processes that serves their customers. If someone within the organization wants to deviate from those processes, the person is
deviating from the direction of survival (Pfeffer & Salacik, 1978) and will thus be declined a long-
term resource allocation in that deviant direction. Hence, when a disruptive force comes into an
industry, organizations at the top will not be able to do something about it. Because in the
beginning, this force serves lower customer segments more than in the high end of the market. The
organizations serving high-end customer segments will have no incentive from their customers to
allocate resources to the potential disruptive innovation.

An example of this is the mainframe computer market in the 1980s, the mainframe incumbents
asked their customers (big corporation with need for high capacity) what they wanted, and they
replied: More and faster capacity, and higher reliability. The big size of the mainframe computers
was thus not an issue when the customers prioritized features in coming product updates. The
personal computer (PC) entered and created a whole new market for consumers, offering them a
much worse product in performance than the mainframe computer, but it fit in the consumers
houses and it was intuitive enough to use. The PC developed in a faster pace than the mainframe
computers and took segment after segment from the incumbents, when the incumbents asked
their most profitable customers the answer would still be bigger and better capacity, thus they
focused on that instead of finding a viable competing product in the PC-industry. When the PCs
eventually reached the same capacity as the mainframe computers, the industry was of course
doomed, no one wants computers the size of big rooms when they can get small computers,
cheaper, and with the same capacity. (Christensen, 1997)

Organizations often hope or think that their resource allocations are taken by the top management,
and then carried out by the rest of the organization. In Apple, with Steve Jobs having almost full
control over most decisions in the company, this was probably the case (Isacson, 2011). However,
Bower (1970) launched a theory of resource allocation saying that it really is the middle managers
that control the resources in most companies. According to Bower (1970; Christensen, 1997) middle
managers get both disruptive and sustaining ideas from beneath, however, they only bring forward
the sustaining ones. This is due to the risk/reward-ratio involved in proposing a disruptive idea
contra the risk/reward ratio when proposing a sustaining idea. With a sustaining idea the middle
manager can calculate the potential market share and the revenue increases the idea will give the
organization. If the idea fails, it can be blamed on the engineers and product developers
(Christensen, 1997). On the other hand, if the middle manager brings an idea forward of disruptive
character, that involves less profitable customer segments and potential markets which size cannot
be calculated, the middle manager risks his career if the idea does not pan out. Below I created a
hypothetical example to illustrate the point. The company of the example is a hypothetical Apple
Inc. in 2009. In this organization Apple comes with ideas from the bottom of the organization,
compared to the actual case, when they came mainly from Steve Jobs (Isacson, 2011):

A middle manager gets two ideas from his staff.

The first one is a new iPhone, called iPhone 4, it has a better camera than the last phone, and a
slightly different design. It has also increased capacity and offers better graphics. The middle
manager can do approximate calculation of how many phones Apple could sell, how much it would increase Apple’s market share and how much profit that could be retained by the company.

The second idea is from an engineer that has made a prototype of a tablet he calls the iPad. He suggests one could browse and read newspapers on the tablet and that the customers will figure out the rest. Apple’s ecosystem iTunes could be connected to the tablet. Who will buy it? High-end consumers that think laptops are too heavy perhaps? People that like surfing on their phone but think it is too small? People that are tired of newspaper in the original form but still want a way to read them easily.

For a middle manager it seems like an obvious choice; present an idea that will give the company more money and fit with its strategic course, or present an idea where the use of the product is uncertain, and the demand is highly uncertain. The first idea also aligns with the company’s value network and cost structures. Suppliers are already in place, and profit margins are relatively known. Thus, if the middle managers get to choose, they will always go for the sustaining ideas, and refuse the disruptive ones (Christensen, 1997). In the subchapter below, disruptive innovation and blue ocean strategy will be discussed in order to get an understanding of how organizations can break free from the status quo.

3.2. Creating Value Through Reconfiguration

The chapter above showed how hard it is to go in another direction than the current one. Disruptive Innovation and Blue Ocean Strategy will be reviewed in this subchapter, the purpose of doing a thorough review of these two theories are because they are the cornerstones in the framework. Disruptive Innovation illustrates how value can be created in new markets and in current markets at the same time, and it points to factors that are of high importance when trying to reconfigure old business models to disruptive ones. Blue Ocean Strategy does the same, but it provides more explicit tools to do this.

3.2.1. Disruptive Innovation

According to Christensen (1997) there are mainly two types of innovation, Sustaining Innovation and Disruptive Innovation. Sustaining innovation is the type of innovation that serves the current customers. It can be both incremental and radical in its nature. Christensen (1997) argues that the incumbents always will win the fight to new entrants when it comes to sustaining innovation, no matter if it is radical or incremental, this because the processes that these firms have in place are excellent when it comes to serving the current (and most profitable) customers. If these customers demand a technological leapfrog, all resources in the company will be allocated for doing just this, meaning that the firm will have a substantial edge against smaller competitors that have less resources (Christensen & Raynor, 2003). If the environment only demands sustaining innovations, the incumbents will rule without severe problems.

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25 Value networks will be defined and discussed in the Disruptive Innovation chapter.
The other kind of innovation is Disruptive Innovation. Disruptive Innovation is an innovation that is different from the main product in the market. It has a different business model and a different focus compared to the main product. It starts out with worse performance, but compensates with other attributes, such as simplicity, convenience and mobility (Christensen, 1997). Disruptive Innovation has an oblique approach into the mainstream market, it kind of sneaks up on the incumbents. Instead of going after the most profitable segments, the disruptor focuses on the least profitable customers in the market, and sometimes even on the non-customers. By going for the least attractive segments the firm is able to bypass direct competition with the incumbents. The upper graph in figure 3.7 illustrates how the disruptive innovation is able to gain ground; it aligns better to the low-end segments of the market than the main product does. The disruptive innovation later becomes the main innovation by wandering upstream in a faster pace than the incumbents are able to improve their offering with sustaining innovation. At first, the incumbents are almost grateful for the disruptive innovation. The disruptor relieves them from the least profitable segments, thus letting them focus on more profitable segments. In the end however, there will be no segments left to focus on, and the incumbents must take the fight vis-à-vis (Christensen, 1997).

![Figure 3.7. The effect of Disruptive Innovation. (Adopted from Christensen & Raynor, 2003)](image)

Christensen & Raynor (2003) divide disruptive innovation into two categories, Low-end Disruption and New Market-Disruption. Low-end disruption is what is illustrated in the upper part of the graph....
in figure X, the disruptor starts at a low level, serving the least profitable, and goes upstream, serving more profitable segments. Toyota’s entry to the automobiles in the US is an excellent example of the first type of disruptive innovation, called low-end disruption (Christensen & Raynor, 2003). Toyota came into the US market with a car that had less horsepower, less space and had less reach with a full tank. Instead they offered a cheap, fuel-efficient car that promised to take you from point A to point B. In the beginning they took the least profitable customers from the large US auto manufacturers, giving them a chance to focus on their more profitable customers, thus increasing their margins. Toyota moved upstream taking the next lowest customer segment, and then the one above that. The large automakers fled upstream as well, until they were in direct competition with Toyota. This was a tough fight due to difference in cost structures and value networks compared to Toyota (will be discussed more in the chapters below). (Christensen & Raynor, 2003)

The second type of Disruptive Innovation is called new market disruption (Christensen & Raynor, 2003), and means that the company chase after non-customers. A clear example of this is Apple, who in the end of the 70s created a product that enabled consumers to use computers. The giants in the mainframe market were not interested in this, thus they allowed Apple to grow in strength. Eventually the capacity and performance of the personal computers matched the ones in the mainframe market, making it a no-brainer when the previously mainframe customers had to choose between a big expensive mainframe and a small, more inexpensive, personal computer. This new-market disruption is illustrated in the lower part of the graph in figure 3.7., here the innovation is measured on other performance attributes, making the slope different from how it looks in the upper part of the graph.

Value networks and Cost Structures

It was stated above that the disruptor would be more inclined to win when facing the disruptee vis-à-vis in a market upstream. The reason for this is different value networks (Christensen, 1997). According to Christensen & Raynor (2003) a value network is defined as:

"A value network is the context within which a firm establishes a cost structure and operating processes and works with suppliers and channel partners in order to respond profitably to the common needs of a class of customers". (Christensen & Raynor, 2003: 44)

A value network is established to meet the demands of the customers and still be profitable. If opportunities arise, the company would prefer that these opportunities match the value network and the margins in it. Offerings with smaller margin than the established margin will not fit in the organization and are thus more likely to be shot down (Christensen, 1997). The misalignment between a value network and a disruptive innovation is often the reason why firms fail to launch the disruptive innovations they have themselves created, and instead let them lie on the shelf until a startup manage to commercialize the very same innovations (ibid.). Because disruptors start their businesses with less profitable fringe customers they must align their value networks to those customers, thus they often operate with lower profit margin (but higher turnover) and lower costs
than the incumbents. When the incumbents then eventually have to take the fight with the disruptor, they are operating in a value network that is higher "priced" than the disruptor’s, creating a situation where the disruptor can outcompete the incumbent on prices (Christensen, 1997). An example of this is the development of the retail industry in the 1960s. Then, full service department stores had gross margins at 40%, and they managed to turn their stock three times every year, giving them an 120% of return on capital invested in inventory annually. Walmart and Kmart came in with stock that had a margin of 23% in margin. The difference was that they could turn inventories more than five times a year. Making their cut more than 120% annually (Christensen & Raynor, 2003). The disruptors thus created a situation where they had about the same margin annually as the disruptees, but they could outcompete them on prices thanks to a different business model.

Being to rigidly stuck in value network narrows down an organization’s vision when it comes to new ideas (Christensen, 1997; Chesbrough & Rosenbloom, 2002). As illustrated in figure 3.7 disruptive innovations move upstream in a northeast direction. Often the whole network of suppliers moves with the upstream, e.g. the disk-drive companies continue to improve disk-drives in the same pace as the PC-makers continue to improve their PCs. Moving upstream with the value network means that the organization has a bigger potential to capture value from the initial innovation (Chesbrough & Rosenbloom, 2002) but is more inclined to miss opportunities occurring in the southeast corner of figure 3.7. (Christensen, 1997). The companies do not see them, nor do they want to see them because these opportunities do not align with their value network and preconditions of what is considerable to invest in, and their preconditions of how much the company should grow, who their customers are and how much the profit margin should be. Thus, the disruptors end up being the disruptees, and the cycle starts all over again.

**When disruption is coming**

To catch the wave of disruptive innovation, managers should keep their eyes open for over performance and low-tier customers that seem unsatisfied. The organizations should be aware of what the basis of competition is in the industry, if that level already is over exceeded compared to customer demands, and what then could be the next basis of competition (Christensen, 1997).

In the disk-drive industry there where four different basis of competition that emerged after each other (Christensen, 1997), in all these levels there is opportunity to come in and disrupt the mainstream products. The first level was functionality, the second was size (mobility), the third one was reliability, and lastly, the firms started competing on price. If companies detect that the basis of competition has intersected customer demands, the companies should start looking for new ways to satisfy the customers. When it comes to disruptive innovation, it is often something more mobile, more convenient, or more reliable that can be the next big thing (Christensen, 1997).

When creating a potential disruptive offering, it is important to not be blind sighted by the organizations value network. As discussed in the Value Network chapter, it is much easier to see opportunities within the firm’s value network, and disregard opportunities that are happening
below the established view of what profit margins and market size should look like. Christensen (1997) promotes development of disruptive innovation where the organization not narrowly focus on its value network, rather it should focus on just putting together a product with the lowest possible features, making it inexpensive and available for more customers than the ones within the value network. This enables the organization to move southeast in figure 3.7., and explore options and customers in other industries or segment. Something that is highlighted more specific in the subchapter below.

3.2.2. Blue Ocean Strategy

A more specific framework is offered by Kim & Mauborgne (2005) with their formulation of Blue Ocean Strategy (BOS). The analogy of BOS is to break free from a bloody, red, ocean of competition and sail away to a wide blue ocean where competition does not exist. Organizations do this through value innovation, which is a narrower form of value creation. Value innovation is when value is created through redefining a problem an industry focuses on and doing completely new things, or by doing old things in a fundamentally different way (Kim & Mauborgne, 2005). As in Christensen’s (1997) definition of Disruptive Innovation, BOS is not about new technology per se, rather it is about reconfiguration old technology and redefine industries. Kim & Mauborgne (2005) first suggest that companies should look at the biggest features that measure performance and value in the current market, creating a strategy canvas (See example in figure 3.7). When the organization has mapped out its and its competitors value curves, the organization should figure out how to decrease, raise, eliminate and create value factors for the competitors. Figure 3.8 illustrates Nintendo Wii’s reconfiguration of its value curve to something completely new. Before Wii, the console producers (Mainly Microsoft, Sony and Nintendo) focused on increased graphic, better capacity to cope with the increasingly complex games and serving the “hard core-gamers” as best that they could (e.g. by playing against other gamers through the internet). Wii reduced these factors and focused instead of the “fun” in gaming, movement, and making it simple. Thus, Nintendo Wii managed to sail away from the trajectories and performance demands of the traditional market to a previously nonexistent (bigger) market, where non-gamers, young and old, could enjoy simple fun games.
Focus on lateral thinking, not calculations and figures

As BOS takes you into new markets, the numbers are not that important when you conceptualize the idea, or, in other words, the numbers will turn out to be wrong. As discussed in the Disruptive Innovation chapter, when reconfiguring old ideas into new ones, it is extremely hard to judge how viable the idea is until it is crystallized which non-customers (and fringe-customers) will use the offering, and also how they will use it (Kim & Mauborgne, 2005; Christensen, 1997). This is why it is important to focus on outside the box thinking instead of crunching numbers. Breaking free from the competition can be so much worth than taking some percentage of the market share in a zero sum-market.

When going after non-customers, Kim & Mauborgne (2005) discuss three different tiers of non-customers (see figure 3.9.). The first tier are “soon to be”-non-customers, they use the offering in the market to a minimal extent and they are on constantly on the look for an alternative, better suited for their demand.

The second tier non-customers refuse the offering either because it is not affordable, or because the features do not align with their demand (Ibid.). Kim & Mauborgne (2005) bring up an example of when JCDecaux untapped the demand of the second tier customers. Before they entered the business of outdoor advertising, companies that were looking to market their products constantly turned down outdoor advertisement opportunities. This because the billboards where often placed in the fringes of the towns, and most often attached to highways which the end-customers passed by quickly. JCDecaux instead made deals with the municipalities to advertise (in exchange for

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26 Potential customers and non-customers are used as synonyms in the thesis.
maintenance (and money)) in the cities’ bus stops. This meant that the advertising moved into the
city, and to places where people could see them for a longer period of time. This unlocked the
demand of companies that previously refused to advertise outside.

The third tier of non-customers are unexplored non-customers, that no one in the industry has ever
thought of (Kim & Mauborgne, 2005). The authors (2005) discuss the untapped market of tooth
whitening as an example of untapping these non-customers; no one questioned that it should be
someone other than the dentist that bleached consumers’ teeth. Finally, an oral-consumer-product
company questioned this and developed a whitening product sold in ordinary stores and managed
to capture a huge latent demand (Kim & Mauborgne, 2005).

![Figure 3.9. The tree tiers of non-customers](image)

Figure 3.9. The tree tiers of non-customers (Adopted from Kim & Mauborgne, 2005)

The important thing when untapping latent demand is to study key commonalities that are shared
between the non-customers (Kim & Mauborgne, 2005). Instead of segmenting into different
segments, organizations should try to tap into an untapped demand that is as big as it possible can
be. Strategically moving in this direction will also allow the potential of movement from the
mainstream market because those customers notice the different features and like them better.
This happened in golf when Callaway introduced their driver with a bigger hit area (called Big
Bertha) to decrease the complexity of the game for first and second tier-non-customers. When
doing so, the customers that had not reflected over how hard it was to hit a drive bought a Big
Bertha because it was simpler and thus more convenient to play the game (Kim & Mauborgne,
2005). Figure 3.9. visualizes how the tiers grow in distance and size compared to the mainstream
market, first the first tier, that still uses the product, then the ones that refuse to use the offering,
and lastly the unexplored non-customers.

Using the music industry example from the introduction, one can say that piracy reached the
customers that never thought about buying or listening to music, but since it was there, free and
easily for the taking, people started consume music they otherwise would not do. Apple came in
and took the 1st tier of non customers, and some of the 2nd tier, enabling the people that would like

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27 The figure will sometimes be referred to as the tier-onion because of its onion-like look.
to buy, but did not like the experience the music industry offered, to buy online. Lastly, Spotify came in and reached customers in the span of all tiers, thanks to the ease of use, and their attractive profit model.

The essence of Blue Ocean Strategy is to create new value, through value innovation, and leave the zero sum markets behind. Organizations can do this through looking at innovations and features in other industries and areas. By doing that they can redefine the problems posed by the industries and break free from the competition by creating new value curves for themselves. To more explicitly do this, organizations should look to business model innovation.

3.3. Reconfiguring through Business Model Innovation
To be more explicit about what is going to be reconfigured in order to create and capture new value, Osterwalder & Pigneur’s (2010; Osterwalder, 2004) have mapped out nine different components that together create the business model. After introducing the components I will briefly go through Keeley’s (2013) three out of ten different kinds of innovation (Profit model, network effect, customer experience) and how a reconfiguration of them can help organizations explore ways to new value.

3.3.1. The Business Model Canvas
As mentioned in the introduction, I have chosen to define the business model in accordance to Osterwalder & Pigneur’s (2010: 14) definition discussed in the intro; “A business model describes the rationale of how an organization creates, delivers and captures value”. The definition was chosen due to Osterwalder’s (2004) extensive analysis of previous business model literature, where definitions were synthesized to the lines above. It is also the definition that currently is on Wikipedia (Wikipedia, 2013) and is thus (at least) contemporary, and it fits well with the aim of the thesis.

Osterwalder (2004) based his framework among others on Markides’ (1999) concept of “What? Who? How?” and Kaplan & Norton’s (1992) balanced scorecard concept and summed up the business model literature to a model consisting of nine building blocks. In the end of this chapter, an example of Apple’s total value proposition will be illustrated to show who one could work with the business model canvas. Below I review Osterwalder & Pigneur’s (2010) nine building blocks in more detail. In short the blocks to the left relates to costs and the ones to the right relates to revenues.

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28 Note that Wikipedia is used as a source to show that the definition is contemporary and popular.

29 Consisting of the Innovation and learning perspective; the Customer Perspective; the internal business perspective and the financial perspective.
Value Proposition
The thing that binds the entire canvas together (see figure 3.10.) is the Value Proposition. The value proposition is what the company, in total, offers the customer that is of value for him or her. It is based on the capabilities the firm has. The value proposition can be further analyzed by decomposing it to the firm’s different offerings (Osterwalder, 2004). He (2004) argues that the offering’s value can be judged by three different factors.

- Use: how the offering is used, for a car it can be how well it transport its passengers from point A to point B, the added service, the design and the features that the customer use and appreciate.
- Reduction of risk: to what grade the product reduces different kinds of risk, the most obvious example would be an insurance that reduces financial risk.
- Reduction of effort: lastly, the company should look at ways to reduce the effort for the customer. Value could for example be created through reduced search efforts, lower acquisition costs and less training (Osterwalder, 2004).

Further, the value proposition can also be viewed over time; what is the use, risk reduction and/or effort reduction before the purchase, during the purchase, while in use and after being used (Osterwalder, 2004)?

Customer Segment
Osterwalder (2004) argues for the importance of splitting the potential customers up into segments, this so that the business model can focus on certain segments and ignore others. In his dissertation Osterwalder (2004) defines different customer segments through the following criteria:

- Their needs justify and require a distinct offering
- They are reached through different distribution channels
• They require different relations
• They have substantially different profitability
• They are willing to pay for different aspects of the offering. (QUOTE: Osterwalder & Pigneur, 2010: 20)

The important question organizations then should be able to answer is; for whom are we creating value? And why are we creating value for this, or these, segment(s). (Osterwalder, 2004)

**Channels**
Then, organizations should figure out how the value proposition should reach the customers of focus. The channels should among other provide a pathway for the value proposition to reach the customers, raise awareness among customers, help them evaluate the value proposition, and provide post-purchase customer service (Osterwalder & Pigneur, 2010). Examples of channels are: sales force, web sales, own stores, partner stores and wholesalers. According to Osterwalder (2004) the channel has five phases (presented in order): awareness, evaluation, purchase, delivery, after sales. When figuring out which channels to use, the organization should think how each of their potential channels works in each of the different phases.

**Relations**
The relation building block provides an opportunity for management to think about what relations they want to create with the customers of the value proposition. How will the organization acquire customers, and how will it retain them? Questions that need to be answered are how the personnel (if any) are going to assist the customers and if co-creation together with the customer could add value to the relations (Osterwalder & Pigneur, 2010).

The main thing to consider here is to think of how value could be added to the business model if certain relations where established instead of other potential relations.

Combining aspects of the value proposition, channels and the relations in new ways can create a totally different customer experience, a factor that can generate substantial amounts of value if effort is made in this area (Keeley, 2006). Turning the gaze to figure 1.1. again, combinations of these factors can also create value in services, market channels and branding as well.

**Revenue Streams**
In this building block organizations should figure out how they would like to get paid. What customers are willing to pay, and how? Organizations should also analyze how much each of the streams contributes to the overall revenue (Osterwalder & Pigneur, 2010). An important distinction to consider when thinking of revenue streams; is if they come only once from each customer, or if they come repetitively (Ibid.). Figure 1.1. reveals that much value can come from reconfiguring profit models. The revenues can come in the old fashioned way, through asset sale, but they can
also come in through dynamic pricing, subscription fees, leasing, usage fees, licensing, and brokerage fees. Lately, profit models where zero is charged directly from the customers have gain ground (e.g. Anderson, 2008; McGrath, 2010). Anderson (2008) suggests different approaches to earn money by charging nothing, examples of these profit models are; freemium, barter, promotion, advertising and cross-subsidization.

Key Partners

The key partners are the actors outside the firm that are needed to make the business model work. Connecting it to the exploration and exploitation discussed above, it could be a partner that provides the exploitation activities for an otherwise very exploratory business model (Gupta et al., 2006). Osterwalder & Pigneur (2010) break down key partnerships into four different categories;

- Strategic alliances with non-competitors
- Coopetition: Strategic Partnership between competitors
- Joint ventures to develop new businesses and;
- Buyer/Supplier relations to assure reliable supplies

When searching for partnerships it is important to assess what resources and capabilities the company does have and does not have, if a partner that can scale up quickly is needed and if a partner that can reduce the risk should and could be partnered up with (Osterwalder & Pigneur, 2010).

Comparing this with Keeley's (2013) different types of innovation, we can conclude that this is about the same as "network alliances" and is one of the main sources of value if reconfiguration is done right. Chesbrough (2003; 2006) has developed extensive theories (i.e. Open Innovation) on how to accomplish interesting matches between suppliers, customers and the main firm when developing offerings, but also to organizations that want to put together business models (Chesbrough, 2003). Worth mentioning again, to iteratively create value, it is important to not become myopic once a successful combination is achieved, if an organization wants to create disruptive value, the organization often needs to leave its value network and find new network alliances, or key partners (Christensen, 1997).

Amit & Zott (2001) also argue for creating complementaries through setting up an environment where other actors can prosper, and thus bring value into the organization. An example of this is Apple's Appstore, where customers can buy applications that independent developers have

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30 For example, Coca Cola experimented with dynamic with their coke machines. If it was hot, the price went up, if it was cold, the price went down. (Un?)fortunately, this was met with criticism, and Coca Cola ended their experimentation with the pricing model.

31 Either by taking ideas from outside the firms boundaries and develop them in-house (outside-in) or by selling ideas developed inside (inside-out).
developed. Apple then takes 30% of the purchase price for providing the platform, thus, Apple has been able to create and capture value through using its partners in an innovative way.

**Key Resources**

Here, the organization should look for what resources are needed to make the value proposition happen. What resources can be used from within the company, which can be used from potential key partners, and which resources must be acquired. This goes also when examining what is needed for the channels, relations and revenue streams (Osterwalder & Pigneur, 2010).

**Key Activities**

The eighth building block is about the processes an organization is required to have, and what activities the organization has to perform to deliver the value proposition and by creating the channels and relations in a adequate manner (Osterwalder & Pigneur, 2010). As discussed in the previous chapters, changing ones processes can be one of the toughest things for an organization, and in the search of exploratory business models that create new value, reconfiguration and radically new processes will be needed. This proposes a challenge for the companies, how should new processes and activities be implemented without interfering with the old ones?

**Cost Structure**

Last, but not least, the ninth building block is the company's cost structure, which is defined as costs incurred to operate the business model (Osterwalder & Pigneur, 2010). Connecting this part to Kim & Mauborgne (2005), it seems important to keep certain costs down, to spend more in other features. It is important that the organization looks at what they can be without, and then tries to alter their offering so that the lower cost works in their advantage.

### 3.3.1.1. The Business Model Canvas in Action - Apple

To illustrate how an organization can work with the business model canvas, in figure 3.11. I have put together the Business model for the entire organization of Apple, based on the information given by Isacson (2011) in the biography on Steve Jobs (Apple's former CEO). Of course organizations can (and should) divide the value proposition into smaller pieces of offering.

In the example we see that it is user friendliness and Apple's seamless integration between their offerings that is the essence of their value proposition. And that they are now trying to reach all (almost) customers compared with before. They do this through all channels mentioned by Osterwalder & Pigneur (2010), and they offer personal assistance as well as web assistance when it comes to creating relations with the customers. The revenues are secured both through the sales of their explicit products, but also from the Appstore and iTunes, the web-based store where they sell content made by software developers (Apple takes 30%) and by music and TV-shows through iTunes. On the cost side, they need good processes for supply chain management, product development to pull their value proposition off. They also need an adequate platform for Appstore and iTunes, and design knowhow to be able to create the intuitive products they do.
The example is just a very rough sketch of how the canvas can be used. When used right, a lot of analysis and experimentation can be generated from it. If we go back to the example of the iPad being proposed in the organization, the canvas could be done specifically for the iPad. Apple could map out which processes they must foster, which partners they must acquire to be able to create the value proposition, and how they should price the tablet to potentially create a large new market.

### 3.3.2. Experimentation and learning

McGrath (2010) proposes a discovery driven approach when creating business models. She argues that business models should be approached from an experimental perspective. Several different options should be pursued with an experimental mindset, giving the company the chance to explore and catch disruptive waves. An important factor in this approach is discovery driven planning (McGrath & MacMillan, 1995) that means that milestones should be set and achieved before moving on to the next milestone. This creates a situation where many business models can be explored, if the milestones are not achieved, the models get cancelled. This means a limited downside risk compared with the normal planning approach. In normal planning, resources can be drained without the offering ever showing revenues (McGrath, 2010). Figure 3.12. illustrates...
McGrath’s (2010) point with a lot of business models that get the chance to grow through experimentation, and the “normal” approach where a project is planned with unlimited downside. The discovery driven approach focuses much on what is going outside the firm, how the environment is changing and what opportunities that can be seized by creating offerings that match the new environment (McGrath, 2010). Connecting this approach to figure 3.3, there seem to be an apparent danger with capping the explorative projects to early. This will be discussed further in chapter 3.4.

**Figure 3.12. Experimenting with several alternatives vs one. Several alternatives in accordance with McGrath’s (2010) discovery driven approach.**

Connected to McGrath's (2010) vision and Christensen’s theories of Disruptive Innovation came Silicon Valley Entrepreneur Eric Ries (2011) and formulated a theory about validated learning and how to create sustainable offerings by connecting startups with lean manufacturing. Ries defines a startup as;

“A human institution designed to create new products and services under conditions of extreme uncertainty” (Ries, 2011: 8)

This thesis proposes exploratory business models that align well with Ries’ (2011) definition of a start up. The essence of Ries’ (2011) theory is that startups should build, measure and learn in as quick loops as possible. An organization does this by stating different hypothesis that could create value, then builds a product that only measures if this hypothesis is correct or not. Ries calls this a Minimum Viable Product (MVP). Basically it means that you make an as basic offering as possible, sell it to customers and then measure the effect of the customer’s behavior, and compare it to your initial hypothesis. If the hypothesis is correct the startup should persevere (i.e. continue optimize

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32 The processes of lean manufacturing is made explicit in “the toyota way” by Liker (2001). Basically, it is about reducing all waste possible, and only doing things throughout the entire value chain that adds value for the customer.
the offering), and if it is not correct the startup should pivot (i.e. change strategic direction). Then new hypotheses are stated and the loop begins again. This approach generates a situation where product developers do not create unnecessary features in an offering, instead they only go on the hypothesis that are based on real data about the customers (Ries, 2011). The loop is illustrated in figure 3.13. To know if an idea of an offering should be continued, the organization should ask itself four questions:

Do consumers recognize that they have the problem you are trying to solve?
If there was a solution, would they buy it?
Would they buy it from us?
Can we build a solution for that problem? (Ries, 2011: 64)

The theory proposes first a leap of faith, an assumption or a hypothesis, on which the entire venture rests, if the assumption is validated, the project should move on. This aligns with McGrath’s (2010) discovery driven approach where projects start with assumptions about new opportunities that have been generated. To validate that these opportunities are real, if there is new value on the horizon, customers should flock to the offering. Customers should at least not leave the offering if the startup is heading in the direction. Ries (2011) identifies three engines of growth that could be used as metrics on which the startup can focus its attention:
• The sticky engine of growth - Here high customer retention is expected, as soon as a customer has tried the offering, he should come back. The rule for the sticky engine is: if the rate of new customers acquisition is bigger than the churn rate\textsuperscript{33}, the offering will grow (Ries, 2011). An example of a sticky engine is Facebook, the social media network where the customers go in several times a day to check new updates and pictures of their friends. The lesson here is it is important to focus on getting the existing customers to stay rather than focusing on chasing new ones.

• The viral engine of growth - Here the growth happens as a side effect of the customers using the offering. The customers become [involuntary] advertisers for the service and it gains traction that way. In his book, Ries (2011) brings up Hotmail as an example of this. Hotmail’s growth accelerated when they added “PS. Get your free e-mail at Hotmail” along with a hyperlink to Hotmail’s website. One can measure the viral engine of growth by looking at how many new customers start using the offering as a consequence of a newly signed up customer. If the growth is more than one customer per newly signed customer, the curve of new customers will grow exponentially. The attractiveness of this engine is the reason why many services do not charge their customers, rather they use some of the free-tactics discussed in the Revenue Streams chapter above.

• The paid engine of growth - Basically, if the lifetime value captured from a customer is bigger than the cost per acquisition, growth will develop positively (Ries, 2011). If a company pays 10$ in marketing costs to get a customer in average, and earns in total 20$ on that customer, the company will have 10$ in surplus to acquire more customers.

While companies can have two engines of growth, Ries (2011) recommends that startups focus on just one of them. Also in this situation, the experiments and hypotheses apply, if one engine of growth does not work, and is not close to work, the company should pivot and try another of the engines. When a growth engine finally starts, the company with the offering has finally found its true market (Ries, 2011).

If the company has succeeded with finding its engine of growth real progress in the offering can be hard to detect, this because users and revenue will increase anyways. To really achieve sustainability in the business model, the company should look at real progress metrics when assessing the condition of the offering. Ries (2011) proposes the use of split-testing and cohort diagrams. Split testing will give you in black and white whether a feature adds value to the customers, and the cohort diagrams will show the real rate of, for example, use, frequent use, repeat purchases and such. These accounting techniques differ a bit from McGrath’s (2010) discovery driven approach and will be brought up in the synthesis in the next section.

\textsuperscript{33} In short, churn rate is the rate new customers join an offering minus the rate customers leave the offering. Noble (2011) explains deeper how the churn rate can be calculated if one is going to use it as a non-vanity metric.
3.4. Synthesis of Theory

Throughout chapter 3, it becomes clear that success in an organization reinforces its current processes and thus risks trapping it in a competency trap, or a suboptimal equilibrium (Abernathy & Utterback, 1978; Levitt & March, 1988; March, 1991; Christensen, 1997). To be successful over a longer period of time means that the company needs to explore outside of its boundaries (i.e. explore opportunities that arises in the environment), and not only exploit current success (March, 1991; Gupta et al., 2006), however, resource allocation processes (Bower, 1970) and resource dependence will make it difficult to explore when successful. From the theories and concepts reviewed and discussed from 3.2., it becomes clear that there are mainly three things companies must think of when trying to create and capture new value. First, proper analysis and knowledge about the environment seem very important to sense the opportunities that pass by; knowledge about the industry, other industries, changes in society, about the organizations customers and about the organization’s non-customers are areas that increase the chance to find new alternatives (Christensen 1997; Kim & Mauborgne, 2005; McGrath, 2010).

Second, organization must seize these opportunities34 to be able to create and capture new value. This is done by approaching problems differently, reconfiguring ideas into new constellations, and experimenting a lot when developing the concepts, business models and minimum viable products (Christensen, 1997; Kim & Mauborgne, 2005; McGrath, 2010, Osterwalder, 2010; Ries, 2011). Third, knowing when and how to continue, change or stop with the development of a business model. Too much experimentation and exploring will drain the organization’s resources without return (see figure 3.3), and create a lack of focus in the company (March, 1991). To know when to stop, some set of criteria must be set up, however, this is extremely hard because experimentation can take an offering in direction towards new markets and thus other new value. In the rest of the chapter, I will first discuss the factors happening outside of the company; basis of competition and non-customers. Then I will discuss how the company should work to turning these factors into business models, divided into; Reaching the customers, capturing value and lastly when to change and stop.

Figure 3.14. illustrates the points discussed below and can work as a rough framework when exploring new alternatives for business models and offerings.

34 The discussion of sensing and seizing aligns well with Teece’s (2007) organizational discussion on dynamic capabilities. In short, an organization that have processes to sense (opportunities), seize (opportunities) and transform (itself - when new opportunities arise) is an organization that has dynamic capabilities.
3.4.1. Basis of Competition

Organizations must know how the industry competes and why it competes in that way. Christensen (1997) discussed the disk drive industry’s basis of competition. It first competed on functionality, then on size, then on reliability and lastly on price. When companies reached the demand levels of functionality, an opportunity arose to create new value by reconfiguring the offering to a smaller disk drives. Incumbents that did not manage to reconfigure got pushed out from the market. When reaching price as the basis of competition one design has become dominant and the offering is becoming commoditized (Abernathy & Utterback, 1978; Christensen, 1997), then it is time to look for ways to radically change the configuration and design of the product (e.g. find a way to transfer files through USBs/internet instead of disks). To get deeper into what the basis of competition is, and how to change it, organizations can use Kim & Mauborgne’s (2005) strategy canvas that map out all the important factors of competition (see figure 3.8).

When studying the basis of competition, organizations must be aware of what is happening in the environment outside of the industry as well. The organization should be aware of development in related industries, and regulation changes, that can shift the basis of competition (Kim & Mauborgne, 2005; McGrath, 2010).
3.4.2. Non-Customers

Customers’ habits and opinions are important when generating business models (Osterwalder & Pigneur, 2010). However, when generating explorative, potentially disruptive, business models, knowing ones non-customers seems to be key. Christensen (1997) argues that disruptive innovation happens when companies align with customers in the fringes of the markets, Kim & Mauborgne (2005) write that it is the non-customers that are the ones that unlock value. They (2005) mention three tiers of non-customers; soon-to-be non-customers, customers who refuse the offer and unexplored and unknown customers (discussed more deeply in 3.2.2).

To explore these different tiers, organizations can ask the first two of Ries (2011) questions stated 3.4: Do the [non]customer recognize that they have a problem with what you are trying to solve? And, if there was a solution, would they buy it? By looking at Kim & Mauborgne’s (2005) different tiers, and trying to observe and learn the answers to these questions posed the company is forced to look at customers that do not align with the company’s value network and values. The organization also gives itself the chance to pick up on new customer preferences when asking the questions iteratively. Being open and willing to reconsider, and experiment with, who really are the customers of the organization is an important aspect (Christensen, 1997; Kim & Mauborgne, 2005; Ries; 2011).

Combined with the analysis done in the basis of competition, the learning from the non-customers should bring the company much closer to finding aspects in the business model that is ready to be disrupted.

3.4.3. Creating Value

When an opportunity has presented itself, it is time to turn the gaze inwards. The organization must match its resources to the opportunity. Managing to approach problems in a new way, or unexpectedly combine resources into radically new offerings can disrupt industries (Kim & Mauborgne, 2005; Christensen, 1997). A key commonality when creating and capturing value in the theories discussed throughout chapter 3. is experimentation (Christensen, 1997; McGrath, 2010; Osterwalder, 2010; Ries, 2011). It is here the company should use the derived strategy canvas for the industry and try to diverge from it in a way so it fits with the potential customers (previous non-customers) and the tendencies picked up when analyzing the environment. Here, Ries (2011: 64) forth question should be dealt with: Can we build a solution for the problem? Osterwalder & Pigneur’s (2010) building blocks should be experimented with and the value proposition should be crystallized to fit with the new strategy canvas. Keeley’s (2006) diagram of innovations that create (more) value should be taken into consideration as well. Can the company somehow reconfigure the customer experience in a way that will revolutionize the business? Can they experiment with different actors in order to create value?

The importance of not over-performing should be emphasized also, extra features in offerings mean extra costs, meaning that potential customers are lost (Christensen, 1997). Instead, organizations should try to learn from the customers by selling them minimum viable products.
where the effect of the features could be measured (Ries, 2011). This is also an approach to capture value, which is the next factor to be discussed.

### 3.4.4. Capturing Value

Though creating value and capturing value is tightly integrated, there is still a difference, below, factors and constructs more aligned (but not exclusive) to the capture of value are discussed.

To capture the value created in the offering, the organization must have a well-synchronized business model. It must know what the customers and non-customers want, and how they want it. In this phase, companies should consider their approach to a profit model. Keeley (2006) illustrated well what potential efforts made in reconfiguring the profit model could eventually bring in to the company. Knowing how to get paid is essential in capturing value. In chapter 3.3, under revenue streams, a couple of different profit models are discussed, a wider discussion in how to reconfigure profit models can be found in Keeley et al.’s (2013) book “ten types of innovation”. Also, to capture value, proper channels and relations must be established from the value proposition to the customer segments (Osterwalder, 2004). The organization must also be ready to wander up with the value network for a while to be able to capture the value it has created (Chesbrough & Rosenbloom, 2002). What this translates to is that the organization should look for add-ons to its current, successful, business model. The company can also try to create and provide environments that connect key partners to the customers, as discussed by Amit & Zott (2001).

To capture as much value as possible (i.e. by creating a new market) Kim & Mauborgne (2005) propose that prices are set as low as possible. This because low prices only exclude a minimum amount of potential customers thus the offering can grow to something big in different segments at the same time. Because the company only can guess which customers will fit best with the product, the best idea is to offer a product as simple and cheap as possible so that it is the customers that eventually decides how to move forward with the offering (Christensen, 1997; Ries, 2011). Ries’ (2011) three engines of growth should also be taken into consideration when an organization wants to capture as much value as possible, by fine tuning these engines customer could increase exponentially and bring a lot of value. Another important factor for organizations to consider is if the organization can capture value by creating a lock-in for the customers (Amit & Zott, 2001). It is a lock-in if the organization has other offerings (see Apple example in figure 3.11) that increases the value of the new offering. Eco-systems that increase value for the customer, and everything that increases the customers transaction cost creates lock-in effects that allow the organization to capture more value from the customer (Amit & Zott, 2001). When trying to discover how to capture value the organization must thus work with the entire business model (i.e. Osterwalder & Pigneur’s building blocks) to capture the value created.

### 3.4.5. Persevere, Change or Stop

As many product developers, Christensen (1997) seems to prefer a fuzzy beginning for disruptive innovation, shutting down a disruptive project is not an option when a few criteria match in the disruptive category. McGrath (2010) has a pretty clear system for when to stop, and when to
continue experimenting and refining the business model. The problem with the approach is that the company risks figure 3.3. happening when constantly stopping because of a not big enough market (yet). But McGrath’s (2010) arguments for experimentation, milestones and plans to end business models resonates well with Ries’ (2011) theories of the lean startup. However, where McGrath (2010) promotes market research and information gathering before deciding to go forward, Ries (2011) promotes launching products, and testing them on buying customers. Seeing if an offering really approves through cohort diagrams and split-testing on customers give the organization valuable information on where they stand when they choose between optimizing, changing or stopping the project. Counting growth in accordance to the formulas of the engines, and looking at the real retention and acquisitions of customers will give the organization a good indicator on what to do with certain business models and offerings.
4. Data

This chapter will present the three companies of study. As previously discussed, they have all managed to create and capture value thanks to business model innovation. The subchapters below will present how the companies’ different business models have emerged and how the companies work with business model innovation to create and capture new value. Structurally, the two first subchapters (JaRocka and OnlinePizza) will first present how the business model emerged and then the business models will be examined in depth. The last subchapter, 4.3. Tekniska Verken, is structured somewhat different since the company generates business models in several divisions. Firstly, Tekniska Verken and their structures for innovation will be discussed. Then, two business models will be presented in a similar fashion as with the other chapters. In the end of all three subchapters there are quotes that display the case companies processes and ideas concerning innovation. They are structured into four topics; experimenting with radical ideas, experimentation with customers, projects and basis of competition. The quotes will be used extensively in the analysis. Behind each quote there is a specific tag (e.g. JR: Q1), the tags will then be used in the analysis when referring to specific quotes.

The three following tables give a brief overview of the case companies.

<table>
<thead>
<tr>
<th>Industry</th>
<th>Revenue</th>
<th>Employees</th>
<th>Customers</th>
<th>Interviewees</th>
<th>Connection</th>
</tr>
</thead>
<tbody>
<tr>
<td>JaRocka</td>
<td>Mass photography</td>
<td>2012: 4 608 SEK (allabolag, 2013a)</td>
<td>1 (+ 3 co-owners)</td>
<td>Johan Strömqvist</td>
<td>Co-owner and platform developer</td>
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<td></td>
<td></td>
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<td>~35 Mass Photographers</td>
<td>Joachim Falk</td>
<td>Co-owner and CEO</td>
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<td>~70 000 End-customers (Strömqvist, 2013a)</td>
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Table 4.1. Overview of JaRocka.

<table>
<thead>
<tr>
<th>Industry</th>
<th>Revenue</th>
<th>Employees</th>
<th>Customers</th>
<th>Interviewees</th>
<th>Connection</th>
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<tbody>
<tr>
<td>OnlinePizza</td>
<td>Food delivery</td>
<td>2011: 35 192k SEK (allabolag, 2013b)</td>
<td>23 (allabolag, 2013b)</td>
<td>Erik Mellström Byrenius</td>
<td>Cofounder and head of product development</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>1000+ Restaurants</td>
<td>Robil Barhanko</td>
<td>Restaurant owner in OnlinePizza-network</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>500 000+ Users/end-customers</td>
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<td>~5 000 000 orders /Year (Pizzarapporten, 2012)</td>
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Table 4.2. Overview of OnlinePizza.
<table>
<thead>
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<th>Tekniska Verken</th>
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<tbody>
<tr>
<td><strong>Industry</strong></td>
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<td><strong>Customers</strong></td>
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<tr>
<td><strong>Interviewees</strong></td>
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Table 4.3. Overview of Tekniska Verken.

4.1. JaRocka

When JaRocka\(^{35}\) entered the mass photography industry\(^{36}\), the prevailing business model was to make a deal with a school, offer cheap catalogs and then earn the money on photos of single individuals (portrait photos). The photographer took photos of the pupils and then sent home one individual photo of the student/player/individual in different sizes, the class photo, and sometimes the catalog as well. The customers would then decide which of the pictures they wanted, and then return the rest to the photographer by mail. The photographer would then destroy the returned photos since he would have no use for them. The stream of revenues for the photographer were from the people who bought photos but also from people who forgot to send the photos back in time, thus being “tricked” into buying the photos\(^{37}\). In this business model the photographer took the photos, printed them, sent them to the customers and administrated the forms and payment terms. (Strömqvist, 2013b; Falk, 2013).

Two of the founders of JaRocka were photographers and they were fed up with the current, outdated (in their mind), business model:

_You can say that [cameras] turned digital 10-12 years ago. I decided to become “digital” and threw away my old camera (…) With the digital camera, I could show my customers the pictures, without printing, without extra costs. (…) So I started doing that for customers that came into my studio for taking pictures (…), they got exited over that they were able to sit at home and choose what pictures they wanted (…) and we started thinking, couldn’t we do this for our mass photography customers as well? From that, we started exploring alternatives._ (Falk, 2013) [JR: Q1]

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\(^{35}\) The structure of the chapter and the model of the flows are inspired from an unpublished research assignment that ran parallel with this thesis (Garcia et al., 2013).

\(^{36}\) The mass photography industry is the photography industry where group pictures are taken of classes, teams, daycares (anything in a group).

\(^{37}\) Something the author of this thesis have experienced many times.
Falk & Hennestål sat down with web developer Johan Strömqvist (third cofounder) and mapped out everything that was bad with the current model, and tried to think of ways to change that:

_We reshaped the business model to create a better approach. Both for us, and also for the customers. We wanted them to have more fair terms, and that we would be enabled to make more money than previously was possible. The old model is pretty rigid in potential revenues (...) we wanted to make more money on the people with a high income, and less money on people with less assets._ (Strömqvist, 2013c) [JR: Q2]

The idea was to reduce administration for photographers, increase options for end-customers (consumers) and eliminate the bad will the last previous business model generated (Strömqvist, 2013c). They launched a platform on a limited number of people and tested different solutions. Through trial and error they created the platform they use today, it is depicted in figure 4.4. In short; JaRocka provides a platform where the photographers can upload the portrait pictures of the consumer. The consumers then get access to the pictures through JaRocka’s website and can order any picture, in any size, they want, and get it delivered to their home. The service relieves the photographers of all administration except negotiating terms with the schools, enabling them to focus more on photography. It also makes the one-photo-system obsolete, since all photos that are ordered are also wanted it gives the photographer the chance to take pictures in more explorative ways of his customers. The consumers avoids the hassle with send-backs and get increased variety in the product offering. (Strömqvist, 2013a)

### 4.1.1. JaRocka’s Flows and Business Model

Below, the flows in JaRocka’s business model is displayed (figure 4.4). Then the components of the model are discussed. The physical flows and flows of information are illustrated in black arrows. Revenue streaming in to the company is illustrated in green arrows, and money flowing out is visualized with red arrows.
Value Proposition

As discussed in the previous paragraph, less administration and higher revenues for the photographers, increased variety and simplicity for the customers. Strömqvist and Falk argues that the main thing is to take the pictures and enter them in the system. From there, JaRocka will SMS and mail a password to the user so that he/she can access (and order) the pictures.

Customer Segments

There are two groups of customers in JaRocka’s business model: the photographers, and the end-customers (consumer). The photographers are the initial link to the customers and JaRocka are completely dependent on them when it comes to access, and re-access, of the customers (Strömqvist, 2013c). Currently, there are about 35 photographers connected to the service.

The photographers cover about 70 000 individuals. Segmenting these individuals further, 90% are connected to schools and preschools, and 10% are individuals from sport teams and similar (Strömqvist, 2013a). Pictures are bought from about 60% of these 70 000 individuals each year. Notice that in the figure (4.4.) it is the household that is the ultimate payer of the service. It is often the parents, not the individuals, who are the consumers and buy, and use, the photos.

When discussing customers with Strömqvist, he (2013c) says that they view the photographers as their primary customers. This due to the fact that JaRocka has deals that explicitly say that JaRocka never “owns” the consumer. If the photographer leaves JaRocka, he will bring all his
consumers with him. Because of this a lot of focus is given to the photographers of JaRocka. Examining the potential non-customers Strömqvist says that the focus is on newly registered photographers that need training, photographers that have been in the business for a while and have a current consumer base and they are also looking for photographers that are willing to give JaRocka a serious try.

*Ten photographers that don’t do that much, is worse than two photographers that do a lot.* (Strömqvist, 2013c) [JR: Q3]

Worth mentioning when listing potential non-customers is JaRocka’s development for expanding and opening up their platform, meaning that new segment could be reached directly and the dependance of photographers could be reduced (Strömqvist, 2013c).

**Channels & Relations**

As is depicted in figure 4.4., JaRocka connects new photographers to their platform through word of mouth and marketing. CEO Falk expands:

*We market ourselves in different channels, we want [photographers] to call us (...) Last year, we did a send-out to all photographers in Sweden (...) Then we have had a system where photographers that recommend the system get a percentage the revenues of future photographers (...) The initial thought was that they would be mentors the photographers (...) it didn’t really work, so now we offer a kickback to the photographers that recommend the system instead.* (Falk, 2013) [JR: Q4]

The recommending system works adequately according to Strömqvist (2013c) and Falk (2013). Most of JaRocka’s new photographers enter the system through word-of-mouth. As discussed earlier, it goes in cycles, the system does not incentivize the photographers to go to other photographers outside of their closest networks, meaning that the growth eventually will stagnate if nothing more is done actively. The photographers are also offered training, both in the system and in methods and ways to market themselves to new schools (Falk, 2013). They also work as idea generators for add-ons in the business model. If some functions are wanted they both have yearly meetings together, and a continuous dialog with JaRocka.

The photographers reach the consumers through the schools (and similar institutions). Only first when the photos are entered into the system by the photographers (figure 4.4) JaRocka are able to contact the consumers. The initial contact are made through direct mail and SMS, giving the consumers a password and a username so that they can see their pictures at the website. If there is a problem, the consumers are free to call or mail JaRocka’s support that will help them. Otherwise they get their pictures delivered by the delivery service connected to the lab.

**Revenue Streams**
JaRocka has only one revenue stream, that is the green line coming from the consumers in figure 4.4. This stream accounts for all revenue at JaRocka and is dependent on how the photographers are doing. However, JaRocka tries to optimize this stream through various efforts in their product offering on their website.

The companies in the mass photography industry has an amount (not disclosed) per buyer they want to make in revenue. This amount is something they call “skolfotopeng”\(^{38}\), this is an amount that has been calculated to be the optimal (in the old system) amount considering the customers’ perceived buying capacity for photographs.

*Our pricing is about the same for consumers that pays for photographs around the amount [skolfotopeng]. The only thing extra we offer them then is the variety and convenience of our offering. But as soon as that amount is surpassed, we drop our margins radically. We do that so that the consumers that pay more will feel that they have been given true value for their money. With valuable offerings, the margin drop is somewhat compensated by a higher purchase frequency. [JR: Q5]*

Thus, JaRocka manages to extract more value from the customers that have low buying power, and even more value from customers that have a high buying power, something that the old model did not manage to do in the same way.

**Cost structure**

The biggest flow of capital out of JaRocka is the flow that goes back to the photographers after the customers have payed for their order. Depending on the deal the photographer has with JaRocka, 55-70\% of the money goes back to the photographer. Then the lab charges JaRocka for printing, materials and delivery, the invoice company takes a fee for the transactions and there are administrative costs such as support. There are also costs for development and the small cost of marketing aimed at the photographers in niche magazines.

A thing worth mentioning is that JaRocka has extremely low fixed costs. Since all three founders run companies on the side, there are no real costs for their facility\(^ {39}\), one full time employee, and servers are the only fixed costs they have. The other costs mentioned are costs that are covered by the initial order from the customers. JaRocka cannot loose money on those, meaning that the only financial risk JaRocka (if all customers suddenly disappear) has, is its employee and the relatively small costs of the servers.

**Key Activities & Key Resources**

The key resource and activity is JaRocka’s platform, and the maintenance of it. Other key activities are keeping the photographers and making them more effective so that they can bring in more

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\(^{38}\) loosely translated to money/revenue from school photos.

\(^{39}\) Revenue flow into the company through orders before they have to “invest” in photos and delivery. Facility-cost are low as well, since the owners pay rents for their other companies there as well.
clients, as Strömqvist mentioned above, two active photographers are better than ten not so active photographers. It is important also that the customers feel safe with the login received and payment of the order (Strömqvist, 2013a). Another key resource is the two cofounders know-how in the mass photography business and Strömqvist’s knowhow in the web development industry.

Key Partners
JaRocka’s key partners is the photographers, according to their own definition, their customers as well (Strömqvist, 2013; Falk, 2013). Without the photographers, there would be no consumers, and the business model would fail. Two other key partners also holds up the system; the lab that prints and delivers the photographs and the invoice company that provides a secure and smooth payment service for the consumers.

Figure 4.5. summarizes JaRocka in accordance to Osterwalder & Pigneur’s (2010) business model canvas.

4.1.2. Innovation Processes and Thinking - Key area quotes from JaRocka
Below, in table 4.6 and 4.7., quotes from the interviews are displayed, they are divided into four different categories to provide a structure, and a way for the reader to get an understanding for
the processes in JaRocka. These quotes are of importance since they very well illustrate processes, thinking and culture in the company.

<table>
<thead>
<tr>
<th>Experimenting with Radical Ideas</th>
<th>Experimenting with customers</th>
</tr>
</thead>
<tbody>
<tr>
<td>We are working for a big update [of the platform] in 2014. It is actually about keeping our business model, but the technology behind it will become more open, in order to take our business model into new markets. (...) This is so that we don’t have to be locked to the mass photography business. (Strömqvist, 2013c) [JR: Q6]</td>
<td>For one year, we tested our system on a limited number of people [customers]. (...) During this period, we noticed that this [the offering] was something that was really good. But, there were a lot of features that we had thought of [and developed] that wasn’t good, so we just threw them way, and thought of new solutions with the knowledge learnt [from the failed features]... From the platform we had the first year, there is nothing left today. (Strömqvist, 2013c) [JR: Q9]</td>
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<tr>
<td>The new platform will provide opportunities to test several different offerings, (...) We can deploy a small version of a feature just to see if there is an interest. (...) If there is, we can connect it to our platform, either as a new branch or as an add-on [to an existing offering] (...) If it doesn’t work, then we archive the idea and move on. (Strömqvist, 2013c) [JR: Q7]</td>
<td>Then the business model emerged, first it was only in our heads, and then we tested the model during a year. During that year we learnt a lot, like “this doesn’t work, we can do like this instead” “Here we lose money because people doesn’t login - Alright, we have to remind people to login” (...) and we also learnt stuff like that the most of our customers are connected on Monday mornings and Sunday evenings, that is when we have the best sales numbers... From that we figured out that we could do different offerings around these times to maximize our sales. (Strömqvist, 2013c) [JR: Q10]</td>
</tr>
<tr>
<td>Connected to [the unattractiveness of the industry] we have started discussions with potential partners on other markets. (...) We took the decision [to open up the platform] because we don’t want our competitors to catch us, or even surpass us only because we are lazy. We should be ahead all the time. So, when [industry] problems occur, we should already have prepared solutions. (Strömqvist, 2013c) [JR: Q8]</td>
<td>[On how JaRocka chooses to go forward with features] Customers often demand features (...) for example, if we get a lot of feedback on certain things in the support, we discuss if it is solvable and clever. If it is, we try it. (Strömqvist, 2013c) [JR: Q11]</td>
</tr>
<tr>
<td>Our goal is that almost all customers, in a good way, should actively say no to our offerings. Then you know exactly [where the customers said no]! (Strömqvist, 2013c) [JR: Q12]</td>
<td></td>
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Table 4.6. JaRocka’s Experimenting with ideas and customers.
### Work with Projects

<table>
<thead>
<tr>
<th>Work with Projects</th>
<th>Basis of Competition</th>
</tr>
</thead>
<tbody>
<tr>
<td>If a project isn’t working, we ask ourselves - don’t we make money on this because there is no money to make? Or don’t we make money on this because we are doing something wrong? For example, do we have to high costs, or do we work to much with it. Maybe we can trim costs with more inexpensive inputs or cut time through tweaks in the platform so the model will be profitable. (Strömqvist, 2013c) [JR: Q13]</td>
<td>[On why they want “open up” the business model] The decision emerged when we started to see tendencies in the industry.. It will perhaps not be there, in its current form, in five or ten years. (...) People have cameras themselves, they print themselves, they take photographs with their cell phones (...) added together, these factors reduce the attractiveness of the market (Strömqvist, 2013c) [JR: Q15]</td>
</tr>
<tr>
<td>We will invest in a couple of big projects that we believe in. Then we evaluate these projects during the first, and second, year. Depending on which customers we acquire, and how much revenue there is (...) we will move forward. And perhaps, during this time, the next project, or model, has been born... (Strömqvist, 2013c) [JR: Q14]</td>
<td>We have discussed an offering that is called something like the &quot;photographer’s choice&quot;, which means that [the customer] can log in, choose the photographers choice, pay and be done with the process. (...) We are striving for solutions in which the customers can order in more quick and easy ways. (Strömqvist, 2013c) [JR: Q16]</td>
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<tr>
<td>[On looking at other industries] We have been looking at e-commerce in general. It is more about strategies, “how do you sell to people online” consumer behavior and stuff like that. We work with that all the time. (Strömqvist, 2013c) [JR: Q17]</td>
<td>It is a small industry, we know almost every movement from the competitors, and they detect movements from us. (Strömqvist, 2013c) [JR: Q18]</td>
</tr>
</tbody>
</table>

Table 4.7. JaRocka’s work in projects and how they analyze the basis of competition.

### 4.2. OnlinePizza

OnlinePizza\(^{40}\) is a company that works as an intermediary between the consumers and the restaurants. The concept is that the consumers can order food online, and the restaurants then deliver the food to the consumers’ doors. The idea of the offering developed in 2005 when the three founders were students and wanted to order pizzas online themselves;

> We came up with the idea because we, ourselves, thought it would be smooth to order home delivery of pizza directly through the computer. We used internet to find pizzerias where you could order home deliveries, and somewhere in this process we thought, “it would be nice if we could order here on this site”. (...) Instead of, checking what is one the menu, write the order down on a piece of paper, and then call. When you order online, you know there will be no misunderstandings, the order will not be sent to the wrong address, the neighbor, and they will not hear something else when a capricciosa is ordered. (...) It was post this process that we also realized that the restaurants also experienced these misunderstandings as a hassle. And it was also post the first process when we realized how seamless it would be if you could

\(^{40}\) When discussing OnlinePizza in this thesis, I am also referring to Mat24 and the other services connected to OnlinePizza. OnlinePizza is present internationally, but the data presented here is delineated to their biggest market, the Swedish market.
pay online instead of using cash at the door. It was nothing we thought about in the beginning, but it all came with time. (Mellström Byrenius, 2013) [OP: Q1]

In short, OnlinePizza first developed a system that required that the restaurant (in the beginning, only pizzerias) had a computer and internet in house, so that the restaurant could confirm the order on the site. This worked well in Linköping, where many restaurants had computers connected in their restaurants. However, when sacrificed one summer to expand to other student cities, they came up almost empty handed, only one or two restaurants joined the network during the entire summer. Because they were still on student loans, they did not have to abandon the idea, the answers from the rejections indicated that there were some problems with the usability of the offering. Developing hardware was the potential solution, the rejections helped them map five requirements that had to be solved in order to move forward;

• The device must have the possibility to print to fulfill the need to replace the pizza owners’ handwritten order notes.
• The device must be fast and reliable. This so that the orders come through directly to the restaurants when they are made by the customers.
• The device cannot be dependent on an internet connection in the restaurant. Many of the restaurant owners did not have a connection, nor did they want one.
• The device must be able to notify the restaurant owners somehow, so they know that an order is coming in.
• There must be a way for two-way communication, so that the customer at home knows that the order has been confirmed. (Mellström Byrenius, 2013)

OnlinePizza solved these requirements by developing a device that had a receipt-printer, a GPRS-modem (used by cell phones), a speaker to notify the owners and a couple of buttons that indicates delivery time, so that the restaurant can confirm the order and communicate the estimated time to arrival to the customer. Appendix 2. shows the third generation of the device, called pizzabox.

When we finally got it [the pizzabox] to a restaurant, and they said, “this is really cool”, I finally felt that this, perhaps, was a great idea. So we started collecting more money to build more boxes, and we started to install them at new restaurants. And then restaurants started to call us saying “my brother/cousin/neighbor has a box that prints out orders, can I get one as well?”. It was then we got the real aha-experience; “this is the way it should be”. Some of the new restaurants did not even know how the system worked (...), perhaps every owner didn’t even know that it was a webpage the orders came from, they only knew that if they had an onlinepizzabox, then they will get more orders. And it is exactly like that it is supposed to be! (Mellström Byrenius, 2013) [OP: Q2]

41 The address to the site is http://www.onlinepizza.se
From this success they started to develop a business model, after a lot of experimenting, trial and error, and growth, they today have a business model with several revenue streams and information flows. As in the JaRocka-case the information-, revenue-, and cost flows are illustrated to get a clearer picture of how how the business model works, and its most important components. The illustration can be found below in figure 4.8.

4.2.1. OnlinePizza’s Flows and Business Model

As in JaRocka’s chapter, the flows are illustrated here as well. Figure 4.7 illustrates the streams of revenue, costs and information at OnlinePizza. Figure 4.8 summarizes the most important information from the component discussion that follows below.

Value Proposition

OnlinePizza provides an ease of use for the consumer (called user, end-customer or customer) by letting them get an overview over potential restaurants and providing an easy system to order food to the door. The restaurants are freed from phone calls and get a bigger customer base, thus earning more and are freed of some administrative duties. In figure 4.8, you can see how the customers order through the webpage and the restaurants respond through their pizzabox. This is the basis of the value proposition for OnlinePizza.

Customer Segments
OnlinePizza has two different groups of customers, the restaurants and the consumers. There are now more than 1000 restaurants connected to OnlinePizza, and more than 500 000 consumers that have an account at OnlinePizza, and there are 20 000 new consumers signing up each month. Mellström Byrenius (2013) says that the goal is everyone who eats food, and anyone who makes and sells food. Since everyone still eats food, everyone is included when they consider consumers. However, OnlinePizza follows the law of least resistance at the moment, focusing and going after the segments that seem most inclined to start using their service. For the restaurants, the focus was first only pizzerias (hence the name) but are now going after restaurants that offers take-away food. Today, they cover 70% of Sweden’s population with their restaurant network (Mellström Byrenius, 2013). Figure 4.8. has simplified these groups to consumers & potential consumers, and restaurants & potential restaurants.

Channels & Relations

OnlinePizza operates in several channels, examining the customers, they want to take responsibility for the whole experience;

*The user experience is everything from the moment you feel hunger until you have received the food, eaten the food, and are pleased. We want to be there for the whole experience. Of course, a part of it is the technical platform, but it is also about the delivery time, the temperature of the food, that it is supposed to be good and that you got what you expected. We want to take a holistic responsibility for the entire process. If someone isn’t pleased with the experience they are more than welcome to contact us.”* (Mellström Byrenius, 2013) [OP: Q3]

The responsibility means that they create awareness and build their brand through PR-efforts - trying to be mentioned and appear in organic content (e.g. through the information in Pizzarapporten). They convert the hungry potential customers to customers mainly through word-of-mouth, search engine optimization (SEO) and advertisements on Adsense (Google) and they take care of their current customers through offering support and keeping in touch with them through email.

*It is very big difference [in conversion] between different channels. (...) If they come in through searches [on Google], they are pretty easy to convert, because they have already decided that it is a good concept, and then they will return. If it is a user we have had to fight a lot to get in, by outdoor commercial and other campaigns, then our conversion rate are worse. (...)*

*Somewhere we believe that the closer you are to the product, the more effective the marketing will be. If one searches for pizza on Google, then there is a pretty high probability that we can convert you to a new customer, but if we talk about pizza in ‘Morgonpasset’ in radio, then there is much lower probability that you will order something. It is brand building, but it is not as effective, at least in the short-term (Mellström Byrenius, 2013). [OP: Q4]*
The acquiring of customers with Adsense and SEO are the most profitable ways when considering the customers’ lifetime value according to Mellström Byrenius (2013). Pretty logically, people who are ready to start using the service will be the most profitable new customers for OnlinePizza, whilst people that come in through Groupon campaigns and similar will be harder to earn money on (Mellström Byrenius, 2013).

Examining the restaurants; OnlinePizza has regular contact with the them, both with support and internal communication (internal magazines and information material), and even helping them make their business more effective (Mellström Byrenius, 2013). They have a customer service team assigned to help the restaurants. The account where OnlinePizza holds the restaurant’s money for two to four weeks can also be leveraged in the relation building with the restaurants. OnlinePizza sometimes uses the account as a creditor for restaurants that have trouble to pay suppliers, thus they get goodwill as well as the pros of having extra money for two to four weeks. OnlinePizza are also experimenting with ideas to help the restaurants through the buying power of the restaurant-network. By giving them good leasing on cars, and cheaper raw materials to their food they build relations as well as manage to obtain some revenues.

Revenue Streams
Six different streams of revenue is illustrated in figure 4.8. The biggest source of revenue is the provision the restaurant pays for each order made. The only “visible” source of income from the consumer is an administration fee if they pay online. The restaurants pay a signup fee for joining the network, something that brings in revenues as well as incentives for the restaurant to use the service (Mellström Byrenius, 2013). Some restaurants also pay for being a premium restaurant (Barhanko, 2013), which is another big source of revenue (Mellström Byrenius, 2013). As mentioned in the paragraph above there are also two streams coming from the suppliers, provision fees are given to OnlinePizza when restaurants sign up for car leasing, and OnlinePizza uses their buying power to get down prices on supplies that are of interest for the restaurants. OnlinePizza buys the supplies from the suppliers and obtains a little margin when reselling the supplies (Mellström Byrenius, 2013)

When it comes to pricing Mellström Byrenius says:

*It is completely value-based, what is [the offering] worth for the restaurants? We don’t base it on our cost and then add a profit margin. (...) Of course, we should show a good profit, but it isn’t only about short-term profit, it’s about long-term profit. (...) What we try to do, to increase our profit, is to add new things to our business model. (Mellström Byrenius, 2013)*

[OP: Q5]

Cost Structure

42 Being a premium restaurant means that you get higher up in the listings when a customer are looking for alternatives to buy food.
As shown in figure 4.8., the main flows of money out of the company are to the money which goes to the restaurants after 2-4 weeks in OnlinePizza’s account. These cannot however, be classified as costs, but are still an aspect to think about when considering streams out of the company. Another stream that flows out of the company are the costs of supplies the company buys to resell them to the restaurants. This is compensated (with a margin) by the inflow of revenues when the restaurants buy the supplies.

But the biggest key costs are: Human resources, marketing, support, IT, server maintenance and other. They try to keep costs down, to keep it on a “service company level” (Mellström Byrenius, 2013).

Resources and Activities

Our most important activities [towards the restaurants] are to meet new restaurants and provide them with our ordering material and take in information. It is very important to expand the restaurant network in that way. The marketing [towards the customers] is also vital, if we don’t have the customers, then the restaurants are not willing to participate, and the other way around. With too few customers or restaurants you are stuck in a moment 22. (…) There is a big advantage being the biggest [in this market]. (Mellström Byrenius, 2013) [OP: Q6]

Thus, the key activities for OnlinePizza are to grow and keep current customers. This is done by providing the users with a smooth, trouble free, user experience. That means that servers and the entire infrastructure must be maintained and improved. For the restaurants it is important with good information and to feel that they are getting value of being in the network. Marketing becomes a key activity since there seem to be network effects in this market. Mellström Byrenius (2013) points out that getting the current customers to stay is key in their system, this will attract others through word-of-mouth.

Key Partners

The most important partners are the restaurants. OnlinePizza are also very dependent on the actors who provide the infrastructure for their site and systems to work; The suppliers of servers, so that the site works smoothly. The telephone-company that provides the subscriptions and sim-cards to the pizzaboxes, so that nothing interferes with the orders in the restaurants. Less important partners, but still partners are KIA and IKEA, the former provides good leasing deals to the restaurants that wants to start delivering food, and the deal with IKEA gives the restaurants cheap furniture smoothly.

Figure 4.9. Illustrates the factors within OnlinePizza’s business model:
4.2.2. Innovation processes and Thinking in OnlinePizza - Key area quotes

The quotes in table 4.10 and 4.11. shows how among other how OnlinePizza thinks when searching for new global optima, what they see as a competitor and how important the user experience is.
<table>
<thead>
<tr>
<th>Experimenting with Radical Ideas</th>
<th>Experimenting with customers</th>
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<tbody>
<tr>
<td>You can use data to find local optima, but it is very hard to find a global optima. If I'm close to [an optima], I can tweak a little and I will come closer yet. But perhaps [to find the global optima] I must go in a completely opposite direction (...) If I accept that things will go worse for a while, perhaps I will eventually pass the threshold and reach the global optima. (Mellström Byrenius, 2013) [OP: Q7]</td>
<td>We try to focus on [a fictive] person. We create personas, customer types. (...) We take an individual and try to [imagine] how he [or she] will behave during a week.. and we try to think of when and how this persona would get usage of our offering. What can we do for this persona? (Mellström Byrenius, 2013) [OP: Q10]</td>
</tr>
<tr>
<td>[On when to decide to go for a global optima] [The decision] isn't based on numbers, more, it is built on a vision, or that we think that we can understand our users in another way than the numbers can show. (...) When it comes to decisions like that, it is based on experience, gut feeling and some kind of faith that you actually know what you are doing. (Mellström Byrenius, 2013) [OP: Q8]</td>
<td>We use heat maps. There can we see how the customers are behaving on the website, where they click with there mouse. (...) The advantage [of heat mapping] versus split-testing is that we don’t have to define what has to be tested in advance. Instead we get input from the users without preconditions, and in that way we see what is really hard and what is easy to do [on the site]. (Mellström Byrenius, 2013) [OP: Q11]</td>
</tr>
<tr>
<td>We try to, analytically, start from the customer’s perspective (...) However, I have noticed that the most innovative ideas don’t emerge when studying customers. Instead, they emerge in other in other contexts, when one is not trying to come up with ideas, or when one is faced with another problem.. And then, you realize that there is a solution that is very innovative. Those moments are harder to systemize, since it is when you think of something else the idea emerges. (Mellström Byrenius, 2013) [OP: Q9]</td>
<td>[On developing their business model] We test these things. We test quite a lot on the restaurants, with more stuff there. I think we can expand [with add-ons] a lot more with the restaurants. Not only selling more stuff, but also by helping them, for example, by showing them more effective driver routs and things like that. (Mellström Byrenius, 2013) [OP: Q12]</td>
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Table 4.10. OnlinePizza’s experimenting with radical ideas and customers.
Projects

[On emergence of the business model] all this emerged with time (...) Often, it has been like that, there hasn't been a thought out plan, rather [the model] is built on coincidences and persistence. We have refused to give up, and kept working.. And eventually some new model has emerged [from the work] that works. (Mellström Byrenius, 2013) [OP: Q13]

We do a lot of testing with business models as well. We test stuff, which we don’t know if it will work or not.. We think it will work, this is the thing we believe in the most right now, which we will put our time and resources in.. And then we do just that.. It’s very hard to know when to give up.. We have a history in the company when it has been shaky in long periods, but we have still managed to find a solution out of the situation and turned it to a success. (Mellström Byrenius, 2013) [OP: Q14]

We understood that the restaurants got in more orders. Thus, it should be possible to take a fee from the restaurants. We didn’t know how, so we experimented with different [solutions]. First a monthly fee, it wasn’t a good model for us, since the restaurants orders increased, but we had the same revenues. (...) [Lastly] we tried to take a fee based on percentages of the sales. That would be fair since [the restaurants] that got the most, and the biggest orders, would be those who paid the most.. And it is they who earn the most on [our offering]. (Mellström Byrenius, 2013) [OP: Q15]

Basis of Competition

Our biggest competitor is the telephone, without a doubt. (...) So it is the behavioral patterns that must change, and that is a big challenge. (Mellström Byrenius, 2013) [OP: Q16]

If we are going to talk paradigm shifts.. Then we should discuss the cellphone. It has become increasingly important. Traditionally, we have almost exclusively sold from the computer.. But we have noticed that more and more of our users order by phone. If our goal is to give the customer a great user experience, then we must provide a great experience through the phone as well. (Mellström Byrenius, 2013) [OP: Q17]

[on the importance of a good user experience] I think it's the user experience that will be the most vital thing if we get competitors here in Sweden. But i also think it's [the user experience] that is critical in e-commerce generally. So the most critical aspects are user friendliness and [adaption to the increase in] phone usage. (Mellström Byrenius, 2013) [OP: Q18]

We try to be up to date with what is happening in the [e-commerce] industry. (...) We also try to be updated about what is happening in the restaurant business (...) In those ways, we try to monitor what is happening in the environment. (...) [But] I think.. if you look to much on others, you risk becoming a copy-cat, and not [an actor] that leads the development. (Mellström Byrenius, 2013) [OP: Q19]

Table 4.11. OnlinePizza’s work in projects and how they analyze the basis of competition.

4.3. Tekniska Verken

Tekniska Verken is an organization that provides energy, water, waste disposal, and different kind of infrastructure-grids to the citizens in the Linköping region. Figure 4.12. provides an overview over the organization.
The horizontal units in the matrix (figure 4.12) show different divisions or organizations that is fully owned (energy and water) or part owned (the rest) by Tekniska Verken. Vertically the different strategic business units are shown. The dots show what work is done in which divisions. Some dots in figure 4.12. are highlighted with an extra circle, several dots from the energy division and one from the grid-division. Those two areas will be investigated further as two separate business models.

Tekniska Verken overarching aim is to create the most resource efficient region in the world, and they will do this by focus more on productivity, customers and innovation (Jakobsson, 2013). They have just created a new structure for their innovation processes. Meaning that

Tekniska Verken has put an innovation council in place that have mapped out all innovations within the company and placed them in an "innovation portfolio", meaning that they classify the innovations and calculate their ability. They have divided the total portfolio into a cross-functional portfolio and a divisional portfolio. As can be seen in the figure above, the cross-functional portfolio works much more with innovations in the early stages of the innovation chain, whilst the divisional portfolio focuses more on the later stages in the innovation process. An incubator is used sometimes as well, in order to protect innovations that will not stand the qualification to the next stages in the process, but who are still deemed to have great potential (Jakobsson, 2013).

One of the utilities of the innovation portfolio is that the company strategically can work with different kinds of innovation. Since the overarching goal is to be the most resource efficient region in the world (TVAB, Annual Report, 2012), Tekniska Verken looks at innovations from a business dimension, but also from an environmental dimension and from a societal dimension (Jakobsson, 2013). They also have other processes to classify innovations:
We categorize the innovations into three categories; process innovations, offering innovations and market-behavior innovations. (...) then we classify them from another point of view as well (...) we examine if the innovation is disruptive or sustaining, and on the other axis, we look at the level of complexity. (Jakobsson, 2013) [TV: Q1]

From there, they decide how to work with the innovations, and they also look at the balance risk balance in the portfolio. Tekniska Verken also distinguishes innovations that needs to be supervised by people in overarching positions and innovations that can be handled within the divisions

We [business developers] will more often be more involved in the early phases when it comes to the cross-functional portfolio, and then let the innovations go over to the divisional portfolio the further the innovation comes in the innovation process. (Jakobsson, 2013) [TV: Q2]

Since Tekniska Verken has so many different divisions that work in very different ways, I choose to delineate my focus to two business models. Firstly, the energy division will be examined, and how they burn waste, wood and oil in order to get electricity and heat. The business model of the energy division will be presented in a similar fashion as the others companies, and the processes behind Stolpgjutningen (within the light post unit) will be described as well, showing two cases that are pretty far from each other is because they illustrate that Tekniska Verken can work differently within their organization.

4.3.1. The Energy Division

Figure 4.13. has been made in order to visualize the flows in Tekniska Verken’s energy division. Tekniska Verken has people from all over the world coming to learn from this business model (Elez, 2013).
The main activity is to burn waste in order to get electricity and the byproduct of the burning is heat. As can be seen in figure 4.13, wood and oil is also burnt. However, this is only done when there is a lack of waste, or the demand for electricity or heat is so high that the burning waste is not enough. In order to get enough waste, Tekniska Verken "acquire" waste from other cities and countries. They do not get paid for this "acquiring", rather they get paid from the cities that wants to dispose of their waste at Tekniska Verken. Thus, they manage to get paid for their biggest input, the cities pay Tekniska Verken in weight. In this process, another division of Tekniska Verken comes into play, the waste disposal division. They pick up the waste from the consumers and companies in Linköping and then pay the Energy Division for the waste just as every other city does (Elez, 2013). In contrast to the lucrative waste inputs, if the energy division has to burn oil and wood, they must buy these inputs from oil and wood suppliers. The downside of burning waste is that the production plants are much more complex, and thus more expensive (Elez, 2013). Also, after burning waste there is some toxic waste that needs to be stored somewhere safe, Tekniska Verken pays an actor to do just that.

The electricity is then sold to the nordic electricity market (Nordpool) to prices that are affected by the entire electricity production in Sweden, and demand from the actors that sell electricity to the consumers. These actors must go through Nordpool in order to be allowed to sell electricity on the Swedish market. Here, another division of Tekniska Verken comes into play, Bixia, which buys electricity from Nordpool and sells it to consumers in Sweden.
The second output of burning is heat. Tekniska Verken is famous for their heating infrastructure (TVAB, 2013), it connects to people and companies in the Linköping region.

To extract the most value from their infrastructure, Tekniska Verken apply a dynamic price model for heating and cooling:

It started with discussions on how we could stimulate our key-customers. How could they use our scalable systems, and how could we capture value from it as well. By taking a flat price, nothing could be done. And if we then saw tendencies that the customers would become more active and engaged in the future... The customers [key-customers, big companies] whined when we raised the prices, and that they couldn't do anything about it.. (Elez, 2011) [TV: Q3]

[Then we changed] (...) When the temperatures are the coldest, we have to use the most expensive fuels, like oil, or other fossil fuels. Then there are plenty of costs.. And because of that, we try to have a really high price then. If the key-customers manage lower the [energy] production, well then, they save a lot of money, and we manage to reduce the expensive and filthy burning [of fossil fuels]. Whilst when in summertime, we want to produce electricity, and get rid of heat. Instead of building "cooling towers", we lower the price on heat, and try to get them to use that as a source of energy instead. [...] Some of our customers have managed to control this pricing very good, and have thus saved a lot of money. (Elez, 2013) [TV: Q4]

Further, Elez expands:

New business models demand that the customers are more engaged. It is the same with waste, sorting the waste, everything else. Paper, metal.. things like that.. The customer is active by separating this [from the ordinary waste]. Before [the customers] thought with their wallet, now they think about the environment as well (...) We don't just serve them, they want to know what it is all about. (Elez. 2013) [TV: Q5]

Thus, the energy division tries to adapt to new customer preferences through business model innovation, and efforts to align with customers more. Below, the energy division’s business model is illustrated in accordance to Osterwalder & Pigneur’s (2010) Business Model Canvas.

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43 Key-customers for Tekniska Verken are bigger organizations that use extensive amounts of energy.
Figure 4.14. The Energy Division’s business model.
4.3.2. The Light Post-Casting Model

To show the diversity of Tekniska Verken’s innovation process, another business model is discussed below. It is an innovation that has been allowed to grow through the incubator function in Tekniska Verken, the project is called “Stolpgjutningen”, and is translated here to “light post-casting”. It is an innovation that radically lowers the prices on changing the light posts when they rust (Jakobsson, 2013). Instead of changing them all together, a cast is casted around the bottom of the post so that it does not rust, or so that the present rusting is contained. This extends the life length of the post with approximately 30-60 years (Jakobsson, 2013). This innovation was created together with an entrepreneur and then patented within Europe (Ibid.). The flows of the business model model are depicted in figure 4.15. The patent was created since Tekniska Verken saw great potential in the innovation:

There are tons of money to earn here. At the moment we are doing it within our grid (...) But we see that this problem exists all over Sweden, and in other parts of the world as well. (...) And then we started thinking.. Can we make money on this? (Jakobsson, 2013) [TV: Q6]

To figure out which light posts should be exchanged, a system was developed to inspect which posts where rusty and which were not. This system was primarily developed in the water division for fire extinguishers, but was transformed into an mobil application for inspecting the light posts (Kollberg, 2013). As the figure (4.15) shows, money can be made in several ways. As Jakobsson stated above, they tried out the system first in their own grid, now they are expanding:
We invited ourselves to talk [to different cities] "Can’t we come and talk about the rust problem with the light-posts, we have a couple of interesting solutions" Everyone thinks it’s interesting, but everyone doesn’t have the resources for it. (Kollberg, 2013) [TV: Q7]

Tekniska Verken is expanding, first within the region, using their daughter company Driftum. Since they cannot act outside of the region, they are now in the process of developing licensing deals with private companies that can use Tekniska Verken’s innovation and their inspection system in cities outside of Linköping’s region (Jakobsson, 2013). In figure 4.15, this is showed by the numbers to the right, first Linköping (1), then the region (2), then Sweden (3), and lastly, perhaps, Europe (4).

This also show how we start in a small scale at our home market, to solve a dilemma that have been brought to the surface, and then several innovations have emerged from this initial dilemma. (Kollberg, 2013) [TV: Q8]

Tekniska Verken is thus able to capture value from the model, not just from the initial innovation, but from add-ons to the model and from exploring synergies within the company. Below, a summary of the business model is shown:

![Figure 4.16. The light post-casting business model.](image)
4.3.3. Innovation Processes and Thinking in Tekniska Verken - Key Area Quotes

The quotes in table 4.17. and 4.18. show among other things how Tekniska Verken is trying to decrease experimenting in the early stages in order to get more innovations through the pipe, and how they see customer preferences change in the future.

<table>
<thead>
<tr>
<th>Experimenting with Radical Ideas</th>
<th>Experimenting with customers</th>
</tr>
</thead>
<tbody>
<tr>
<td>It [the experimentation] has been pretty unstructured (...) We want to move in the direction of more structure. Because then it becomes a bigger number of innovations, one can think that if you try to structure things you smother them. Our hope is that more [innovations] come into the innovation pipe. (...) Before we had pre-studies that more or less drifted around aimlessly. (Jakobsson, 2013) [TV: Q9]</td>
<td>One [innovation area] is about doing things with the customer, in his system. Not just deliver something to the basement. But go into the customer's life in a different way. (Jakobsson, 2013)</td>
</tr>
<tr>
<td>It is customer satisfaction that makes one discuss a business model.. as long as the customer don’t speak, then there is no... there is very little incentive to do something radical [disruptive]. But as soon as the customer is starting to feel dissatisfied, both with the price and the model, then the organization must act. rather sooner, than later. (Elez, 2013) [TV: Q10]</td>
<td>We now have an division for marketing that primarily should take an overarching role when looking at our key customers. &quot;What is it that we sell to them? How can we create value for them?&quot; (Kollberg, 2013) [TV: Q13]</td>
</tr>
<tr>
<td>[on why and when they change models] It is a decision that emerges over time, we constantly discuss it. “How long will this pricing model survive? Is it good?” So that discussion is constant. (...) One alternative to change is when we see decreases economically and unhappy customers. (...) The other approach [to change] comes from monitoring the environment, you realize that something will change and then you generate ideas [to match the forthcoming change]. (Elez, 2013) [TV: Q11]</td>
<td>We move toward a more customer-oriented approach. (...) We want to move more towards the market, and sell end-to-end solutions. (Kollberg, 2013) [TV: Q14]</td>
</tr>
<tr>
<td>Then we think that there will be necessary with an incubator-function with us, where we take some innovations and ideas a couple of steps in the innovation process before we place them somewhere. This is what we have done with the light post casting-innovation. (Jakobsson, 2013) [TV: Q12]</td>
<td></td>
</tr>
</tbody>
</table>

Table 4.17. Tekniska Verken’s experimenting with ideas and customers.

<table>
<thead>
<tr>
<th>Projects</th>
<th>Basis of Competition</th>
</tr>
</thead>
<tbody>
<tr>
<td>The innovation council will control a budget, and then decide which cross-functional projects to bet on. (Jakobsson, 2013) [TV: Q15]</td>
<td>We have an entire quarter [each year] where we focus on environmental questions. These discussions then become a future vision of 2030. We work quite systematically [...] and get pretty specific in some questions. We choose questions that we view as central [to Tekniska Verken].(Kollberg, 2013) [TV: Q17]</td>
</tr>
<tr>
<td>We will more often be more involved in the early phases when it comes to the cross-functional portfolio, and then let the innovations go over to the divisional portfolio the further the innovation comes in the innovation process. (Jakobsson, 2013) [TV: Q16]</td>
<td>The revenue streams will change, because the environment change, and the markets change, and the customer's preferences will change. The competition has increased, and customers are more aware of the costs. So it will change, especially the part where we sell our products. (Elez, 2013) [TV: Q18]</td>
</tr>
</tbody>
</table>

Table 4.18. Tekniska Verken’s work in projects and how they analyze the basis of competition.
5. Analysis

The structure of this chapter is driven by the synthesis made in subchapter 3.4. and figure 3.14. The figure is shown again for convenience purposes:

![Figure 3.14. Synthesis of theory.](image)

The main focus of the analysis is how the model (3.14.) should be reconfigured when considering the data derived from the three case companies. As illustrated in table 2.2. (Method Mix), the case companies both helped to build the framework as well as evaluate it. There are three subchapters examining and rebuilding the model derived from theory: one for external factors (basis of competition (BoC) and non-customers (Non-C)), one for internal factors (creating value and capturing value) and one where change is discussed more in depth. Each of those subchapters begin with a table (5.2 & 5.5) of differences and similarities in the three case companies (derived from the case and the quotes in chapter 4), in order to get an overview on how the companies behaved when they managed to create and capture value. After having analyzed the factors, a table with proposed tools and their outcome is presented. Lastly, the framework will be pieced together from the analysis conducted in the first three subchapters.

To better understand the context of changes and emergence of the different business models discussed in chapter 4, table 5.1. has been created. The table (5.1.) classifies what innovation the business model can be characterized by (Christensen, 1997), show in what areas major reconfigurations have been done (Keeley, 2013; Osterwalder & Pigneur, 2010), where in the life cycle the case company stepped in and if they are in a stage where a dominant design have
emerged (Abernathy & Utterback, 1978; Utterback & Suarez, 1993). The main value of table 5.1. is that it can explain some of the choices made by the different cases, and thus increasing the validity when factors are brought in to the framework from the case companies.

<table>
<thead>
<tr>
<th>Emergence</th>
<th>JaRocka</th>
<th>OnlinePizza</th>
<th>Energy</th>
<th>Light post-casting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disruptive or sustaining</td>
<td>Sustaining, radical, innovation.</td>
<td>Disruptive innovation</td>
<td>Disruptive innovation.</td>
<td>Disruptive innovation.</td>
</tr>
<tr>
<td>Industry's stage in lifecycle</td>
<td>Mature stage in industry lifecycle, low growth.</td>
<td>In high growth stage in industry lifecycle.</td>
<td>Growth stage in industry lifecycle.</td>
<td>Mature stage in industry lifecycle.</td>
</tr>
<tr>
<td>Dominant Design (DD)</td>
<td>Leading one design trajectory.</td>
<td>Leader of design.</td>
<td>Leader of design.</td>
<td>One possible design solution.</td>
</tr>
</tbody>
</table>

Table 5.1. Classifying the emergence of the cases’ main business model.

Table 5.1. reveals that all business models except JaRocka’s are of disruptive character. JaRocka’s business model was more of a sustaining character, though radical in its nature. Looking at figure 3.4. (a combination between dominant design and industry life cycle), one can say that the business model shook up the industry from its incremental phase into a minor fluid phase because it moved the Swedish mass-photography industry in a more digital direction. However, the customers served were the same as before. The consumers wanted increased variety and less hassle, and that was what JaRocka provided.

In short, the other business model innovations are classified as disruptive because: OnlinePizza disrupted ordering home delivered food via the phone with an alternative that took longer time, but that was safer and increased the variety of choices, thus attracting new customers. Tekniska Verken’s energy model is disruptive in its nature since burning waste is not as effective as burning oil, coal or wood. But through burning waste for energy they solved the waste industry’s problem and attracted customers (cities) that were not considered before. The light post-casting model is providing a cheaper alternative than changing the light posts all together, and it is attracting customers that do have not thought of the problems of rust that destroy the light posts. The other factors in table 5.1. are discussed throughout chapter 4, and are in the table for overview reasons.

5.1. Creating the Framework - External Analysis

Table 5.2. presents similarities and differences between the case companies when it comes to monitoring factors outside of the company. As is displayed in the table, it seems that Tekniska
Verken has the most structured processes for monitoring the environment, while they lack some compared to the others when it comes to identifying non-customer segments.

<table>
<thead>
<tr>
<th>Basis of Competition</th>
<th>JaRocka</th>
<th>OnlinePizza</th>
<th>Tekniska Verken</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monitoring environment</td>
<td>Analyzes trends and tendencies in society and the impact those potentially will have.</td>
<td>Analyzes big trends. Such as movement towards cellphones.</td>
<td>Spends one quarter each year focusing on the environment and potential changes.</td>
</tr>
<tr>
<td>Monitoring industry</td>
<td>Good knowledge of industry.</td>
<td>Less focus on competitors, more focus on substitutes.</td>
<td>Knowledge of competing products, less of processes.</td>
</tr>
<tr>
<td>Monitoring close industries</td>
<td>Looks to general e-commerce for inspiration.</td>
<td>Looks to general e-commerce for inspiration. Monitors changes in restaurant industry.</td>
<td>Tries to take advantage of innovations in other divisions, not very successfully so far.</td>
</tr>
<tr>
<td>Non-Customers</td>
<td>JaRocka</td>
<td>OnlinePizza</td>
<td>Tekniska Verken</td>
</tr>
<tr>
<td>Customers</td>
<td>Analyzes their behavior and calibrate actions to capture value.</td>
<td>Use tools such as heat maps to analyze the current customers and their dilemmas.</td>
<td>What are the key-customers demands? How can they serve them better?</td>
</tr>
<tr>
<td>1st tier</td>
<td>Currently developing processes so that all end-customers must actively say no.</td>
<td>Creates personas understand different types of non-customers and customers.</td>
<td>Tries to analyze potential customers’ system</td>
</tr>
<tr>
<td>2nd tier</td>
<td></td>
<td></td>
<td>Searching and analyzing potential customers outside of their “jurisdiction”.</td>
</tr>
<tr>
<td>3rd tier</td>
<td>Examining other customer segments, unrelated to photos.</td>
<td>Includes all who eats food and all who create food as customers. Started looking at other entities, such as firms.</td>
<td></td>
</tr>
</tbody>
</table>

*Table. 5.2. External comparison between the case companies.*

Figure 5.3 represent the external factors in the framework. These are the base to create and capture value. From model 3.14., the basis of competition have been split into four smaller factors. These four factors are then to be cross-compared with changes in the different tiers of non-customers in the tier-onion. Subchapters 5.1.1. and 5.1.2. explains in detail why and how the external factors of the model have transformed into figure 5.3.
5.1.1. Creating the framework - Basis of competition

After comparing how the case companies handle the monitoring and analyzing of the environment, a more finely divided analysis strategy is proposed, than in figure 3.14. Four factors are highlighted: the macro environment, the industry, substitute industries and complementary industries.

**Macro Environment**

In the macro environment, big tendencies and trends can be picked up. Tekniska Verken spends a quarter each year focusing on monitoring environmental changes (TV: Q17). JaRocka has more informal discussions and that seems to work very well for them (JR: Q8). OnlinePizza does not put as much focus on monitoring as the other companies, but they are still highly aware of changes in big trends in the environment (OP: Q16; Q19).

JaRocka’s approach demands more physical presence from the participants (the employees). Tekniska Verken’s approach offers a structured way to keep an eye on the environment, with focus on certain key areas of interest. Of course, the optimal approach is if one could have both, and that is probably what companies should strive for when monitoring the environment. To get a structured approach to monitoring the environment, I propose to do a simple PESTLE\textsuperscript{44}-analysis (Law, 2009) as a starting point for the company in question. The goal of the PESTLE is to create discussions, formally and informally on where the different factors in the environment are heading, and if there are new factors coming in that could change customer preferences or the basis of competition.

**Industry**

None of the case companies explicitly mapped out a value curve for the industry. However, JaRocka has deep knowledge about what was going on with their competitors (JR: Q18) and Tekniska Verken know what monitors product changes in the industry (TV: Q18). Also here,

\textsuperscript{44}PESTLE is an acronym for Political, Economic, Social, Technological, Legal and Environmental. Law (2009) provides more information about the analysis.
OnlinePizza put less focus than the other companies on the main factors of competition (OP: Q19). There could be two reasons for OnlinePizza’s disinterest; the first is that they are, by far, the biggest actor in the industry, the second is that they are more focused on expanding their business model than on what is happening in the environment.

Two ways to analyze the industry are proposed; the first is by Kim & Mauborgne’s (2005) value curve. The value curve is (still) in the model in order to know what factors are up for reconfiguration. Though JaRocka explicitly did not map out a value curve, they showed great knowledge of the factors of competition when they created their business model from the start (e.g. JR: Q2).

The second way proposed is by mapping out where the industry is when looking at the industry lifecycle. Assessing where the industry is in its lifecycle can be helpful when considering drastic changes or small calibrations in the business model. Figures 3.5 & 3.6 (based on Abernathy & Utterback, 1978; Utterback & Suarez, 1993) showed, the industry behaves somewhat different in different stages of the lifecycle. JaRocka that is acting in an industry in decline should be examining new trajectories, and that is also what they are doing (JR: Q8; Q14). This also resonates well with figure 3.2. (based on March, 1991; March & Weil, 2005), instead of only following the trajectory of the mass photography industry, JaRocka are trying to expand to new trajectories. OnlinePizza’s industry is growing rapidly (since they are growing rapidly, and basically constitutes the whole industry), and then it must seem logical for them to focus on capturing value instead of searching for radically new ways to create value.

Suggestions for companies assessing the industry lifecycle is to examine the annual growth of the industry, and then look at the factors in figure 3.5; number of actors in the industry, number of niche designs in the industry, and if the type of innovation is steered towards cost reductions. If growth is low, and the other factors align with the late stages in figure 3.5., the company should look for new ways to change the industry, before someone else do.45

Substitutes & Close industries
Kim & Mauborgne (2005) argues widely for taking inspiration and combining factors in different, close, industries in order to create a new value curve. OnlinePizza sees the telephone as their biggest competitor (OP: Q16) and JaRocka sees photo capturing with mobile phones as a treat to them. The light post casting-team looked at how the water division solved the inspection of the fire posts, and created a system from that. By knowing the factors of competition in substitute industries, the organization gives itself the opportunity to learn from factors that make the job to be done46 (Christensen et al., 2004) in other industries, as well as learn which factors are over-

45 Which most certainly will happen according to Abernathy & Utterback, 1978; Christensen, 1997 and Kim & Mauborgne, 2005

46 Jobs to be done - When the customer wants to solve a problem or accomplish a task. Companies are successful when they make it easier for the customers to perform these tasks, or solve these problems. (Christensen et al., 2004)
developed (Kim & Mauborgne, 2005). Thus, by mapping substitute industries they get a base of information on how to eventually deviate from the industries value curve.

When analyzing these industries, I also propose that organizations figure out at what stage in the lifecycle the industry is in. Knowing what stage the industries are in, helps the company to map out opportunities to business model reconfiguration between industries. For example if there only are a few actors in the industry that are offering the same thing, and growth are slowing down, there may be an opportunity to reshape, or revive, the industry through a radical business model innovation like JaRocka did with the mass-photo industry. Another reason to analyze the industry is to know whether a dominant design has emerged or not. If not, a change in the organizations current business model can be aimed at the substitute market and offer a solution that can win the entire market. This aligns with Markides (2006) ideas of sweeping in before a dominant design emerges, and be able to scale up if ones design win.

**Complementaries**

Studying the industries of organizations’ complementaries was not thought of when creating figure 3.14. However, both JaRocka and OnlinePizza showed that much could be gained through possessing knowledge of complementary industries. OnlinePizza monitor prices in the input-factors for the restaurants and is thus able to leverage that through deals with suppliers. They are also direct dependent on the sales volume of the restaurants, and should thus be very interested that the restaurants are successful. The same goes for JaRocka and the photographers connected to their service (JR: Q3). As seen in figure 5.3., the same steps for analyzing the other industries goes for the complementaries as well. Knowing what the basis of competition is and where the industry is heading can give the organization a good base when deciding whether to step into the industry, and provide a source of information on how to expand with the organizations providing the complementaries. OnlinePizza is using their knowledge to help the restaurants and JaRocka is leveraging their knowledge of the lifecycle by looking for other non-mass photography revenues. Both the restaurants and the photographers are customers to the companies discussed, however, the analysis should be done even if the complementaries are not so directly connected. This because of the reasons discussed above. For example, JaRocka can learn plenty from knowing the status of the lab, and the movements in its industry.

Summarizing the basis of the competition, the case companies seem to have good, but somewhat different, processes to obtain a base of knowledge to move forward from. Getting information about industries this way might bring Porter’s (1985) five force-framework to mind. However, it should be noted that the lines between industries are rather fuzzy in today’s environment, meaning that the organization performing the analysis must draw its own lines between different value curves and definitions of substitutes. The analysis also gives information about the customers and potential customers that will be discussed more in detail below.

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47 And looking more closely at the content, parallels can be drawn to Grant’s (2010) extension of Porter’s framework, where he adds complementaries as a factor of industry attractiveness.
5.1.2. Creating the framework - Non-Customers

The knowledge of the customers and the potential customers are deeply connected with the analysis made in the “basis of competition”-step. The analysis derived in each of the steps made above provide information about whom the different tier of customers could be, and how their preferences might change. Each factor affects each segment, as illustrated in figure 5.3.

As discussed in chapter 3.2.2., the company’s own market, and its current customers are within the inner circle in the tier-onion (figure 3.9). They should be analyzed mainly in order to capture value. As Christensen (1997) argues; current customers are great when organizations want to move upstream, not as great when trying to create disruptive business models. Ideas to create disruptive innovation come, instead, from the needs and wants of customers in the fringes of the mainstream market (Christensen, 1997). Table 5.2. highlights the companies’ process when analyzing the different tiers of customers and non-customers. Though none of the companies explicitly segment potential customers into 1st, 2nd and 3rd tiers, they all have ideas of who could be potential customers in the future. As the classification in table 5.2. shows, the companies do not differentiate between some of the tiers. Both JaRocka and OnlinePizza seem to have an open vision of who could be in the third tier in the future (e.g. JR: Q14; for OP see customer segments in 4.2). Tekniska Verken has an entire market division, whose purpose it is to map out and find potential key-customers (TV: Q13). They are however somewhat diffuse on how far they go in defining potential customers, and if they are really looking for 3rd tier non-customers.

Though the companies have not segmented the customers in the fashion proposed by the framework, it is still suggested that companies should do just this. Because it provides a finer net, in contrast to looking at the non-customers as one segment, when examining opportunities where value can be created and captured.

Combining the tier onion with the derived information from the basis of competition should provide the organization with extended knowledge on preferences and preference changes, in each different tier, in each analyzed industry. By combining the industries’ value curves, the stages in the lifecycle with customers and non-customers changing preferences the company should get a good knowledge base on where they can reduce, raise, create or eliminate factors when creating a new value curve. It should also provide a good basis for knowing the answer to Ries’ (2011) first two questions: Do the [non]customers recognize a problem? And; would they buy a solution?

5.1.3. Tools and Outcomes when analyzing external factors

Obviously, these analyzes (basis of competition and non-customers) are not supposed to be made sequential, rather they should be done in a combined manner. Below is a table that provides an overview of what tools and what proposed outcomes the use of these tools will have, if using the framework.
<table>
<thead>
<tr>
<th>BoC</th>
<th>Tools</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environment</td>
<td>PESTLE</td>
<td>Formal and informal discussions on how changes, and potential changes, can create opportunities for new business models. Knowledge of customer movements in general.</td>
</tr>
<tr>
<td>Industry</td>
<td>Value curve, life cycle</td>
<td>Knowledge of what factors are of importance when competing in industry. Knowledge of where the industry is heading, hence knowledge of if it is appropriate to bet on add-ons or on other industries instead. Knowledge of customer movement and demands in the industry.</td>
</tr>
<tr>
<td>Substitutes</td>
<td>Value curve, life cycle</td>
<td>Knowledge of what factors companies providing substitutes are competing on, basis of inspiration on which factors one could reduce/eliminate/raise/create in order to create new value. Knowledge of customer movement and demands in substitute and close industries.</td>
</tr>
<tr>
<td>Complementaries</td>
<td>Value curve, life cycle</td>
<td>Knowledge of what factors are of importance when competing in industry. Knowledge on where the industries of the companies providing complementaries are going. The analysis can provide for opportunities to enter industry, help complementaries, or start looking for new complementaries. Knowledge of customer movement and demand in complementary industries.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Non-Customers</th>
<th>Tools</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current customers</td>
<td>BoC, feedback</td>
<td>Knowledge on who the customers are, if they are satisfied with the current models, and if their preferences for satisfaction will change in the future.</td>
</tr>
<tr>
<td>Non-customers (1st, 2nd &amp; 3rd tier)</td>
<td>BoC, tier-onion</td>
<td>Good knowledge base when considering how to reconfigure models and factors to create new value. Also, a good base to consider how radical the organization wants to be in its reconfiguration.</td>
</tr>
<tr>
<td>1st tier</td>
<td>Basis of competition (BoC)</td>
<td>Information on why the 1st-tiers are not as frequent buyer as the core customers.</td>
</tr>
<tr>
<td>2nd tier</td>
<td></td>
<td>Information on why the 2nd-tiers refuse to use offering(s)</td>
</tr>
<tr>
<td>3rd tier</td>
<td></td>
<td>Information on which customer segments that, potentially, hides latent demand.</td>
</tr>
</tbody>
</table>

Table 5.4. Tools and outcomes from the external analysis.

5.2. Creating the Framework - Internal Experimentation

As table 5.5 shows, there are some big differences as well as similarities. For example, JaRocka and OnlinePizza seem to embrace experimentation on a bigger scale, whilst Tekniska Verken tries to move away from it.

<table>
<thead>
<tr>
<th>Creating Value</th>
<th>JaRocka</th>
<th>OnlinePizza</th>
<th>Tekniska Verken</th>
</tr>
</thead>
<tbody>
<tr>
<td>Create new value curve</td>
<td>Created business model by looking at customer needs. Are now creating new value curve by examining trends and tendencies in the environment and with customers</td>
<td>Created business model by trial and error. Are now implementing and experimenting with new factors to value curve.</td>
<td>Moving towards a more structured way to create new value curves. Has mapped out an innovation process for new innovations. Classifies innovation types in order to start discussions on what to reconfigure.</td>
</tr>
<tr>
<td>Creating Value</td>
<td>JaRocka</td>
<td>OnlinePizza</td>
<td>Tekniska Verken</td>
</tr>
<tr>
<td>----------------</td>
<td>---------</td>
<td>-------------</td>
<td>-----------------</td>
</tr>
<tr>
<td>Minimum viable products</td>
<td>Experimenting with new solution. Long time for experiments to reach market.</td>
<td>Testing with different customer types, add-ons and solutions in the market place.</td>
<td>Less experimenting, more structure. Experimentation and ongoing discussions on change of different models.</td>
</tr>
<tr>
<td>Capturing Value</td>
<td>JaRocka</td>
<td>OnlinePizza</td>
<td>Tekniska Verken</td>
</tr>
<tr>
<td>Expansion with value network</td>
<td>Grows with photographers. Trying to leverage platform to more lucrative industries</td>
<td>Constantly looking for add-ons. Tries to improve the restaurants business.</td>
<td>Spends one quarter each year focusing on the environment and potential changes.</td>
</tr>
<tr>
<td>Experimentation with profit models</td>
<td>Profit model radically changed from traditional business model. More money, less costs. Now incremental changes.</td>
<td>Experimented with the current profit model. Looking for new ways to increase and expand revenue streams.</td>
<td>Big changes in with dynamic profit model with energy. Experimentation with licensing in light post.</td>
</tr>
<tr>
<td>Lock-ins</td>
<td>Switching costs for photographers. Tries to get out as much as possible from customer through as good offering and user experience as possible.</td>
<td>Network effect: the more users &amp; restaurants connected, the more attractive it is. Tries to create eco-system around restaurants.</td>
<td>Works toward a better user experience and for more customer engagement. Most environmental friendly alternative is a potential lock-in.</td>
</tr>
</tbody>
</table>

Table 5.5. Internal comparison between the case companies.

Figure 5.6. Illustrates how the creating and capturing of value starts with the analysis derived from the external factors, the miniaturized models and figures within figure 5.6. should be recognized from the earlier work in the thesis. As stated in the subchapter above, the information gathered in the external analysis should have given the company a good base for creating and capturing value.
5.2.1. Creating the Framework - Creating value

First and foremost, it is suggested that the organization uses the inspiration derived from changes in the environment, different related industries and customer preferences and map out a suggestion for a new value curve. JaRocka did just that when they grew tired of the rigid business model used in the mass-photography industry (JR: Q2). They mapped out factors that seemed logical to bring in value, and eliminated factors that did not seem to bring any value at all (e.g. mailing photos to customers in hope that they would forget to send them back).

As can be seen in figure 5.6., the suggested process then moves on to an experimental stage. Testing different reconfigurations in components of the Business Model Canvas (BMC) and experimenting with Keeley’s (2013) different types of innovation is suggested in order to get a more tangible approach to aligning the different factors to the proposed value curve. The experimenting then continues iteratively when using Ries’ (2011) suggestion of building a Minimum Viable Product (MVP), trying to measure the effects and then learn from it. OnlinePizza’s actions align with this behavior, and the light post-casting is getting quick feedback by testing different business models in different ways. However, JaRocka’s approach to build models that are [almost] finished before releasing them deviates from Ries’ (2011) theories of the MVP. Using the MVP strategy is still proposed since it provides data of different strategies and customer tiers quickly, and should thus be very helpful when trying to experiment with the creation and capture of new value.

In the experimenting process the derived analysis of the different customer tiers becomes valuable once again. With the minimum viable products different tiers should be experimented with. Fringe
customers are of importance when creating something of disruptive character (Christensen, 1997), and experimenting with models towards different tiers could result in unexpected value creation (Christensen, 1997; Kim & Mauborgne, 2005). Since the testing and experimenting cannot go on forever (consider figure 3.3. again) McGrath’s (2010) and Christensen (1997) conflicting view on when to stop should be taken into consideration here also. OnlinePizza seems to be closer to Christensen’s (1997) view that the experiments should continue until a prosperous solution arises (OP: Q13) whilst JaRocka and Tekniska Verken are more aligned toward McGrath’s (2010) proposition, and shut down projects when they miss milestones (JR: Q13; TV: Q9). However, glancing at Tekniska Verken again, they bypass the rigid milestone approach by using an incubator function. That way, Tekniska Verken is able to let innovations with high potential grow slowly without getting stirred when milestones are upcoming. See table 5.8 for different approaches in innovation accounting in the case companies.

After having experimented with different types of innovations, building blocks and customer tiers, a new value curve should be drawn again. And a model built to solve customers’ solution should emerge. Going back to the emergence of JaRocka’s business model, they experimented with different factors for an entire year before they where able to reshape their initial idea to something viable enough to take to the market (JR: Q9). The light post-casting unit is in the process of calibrating the new value curve, experimenting with profit models and potential network alliances in order to maximize the value creation. Tekniska Verken’s structured way to classify innovations seems to provide good help to the light post-casting unit in its experimenting. When the new value curve is set, and the components of the BMC are calibrated, the next step is to capture value from the business model innovation.

5.2.2. Creating the framework - Capturing Value

The case companies reinforced the theories brought up in subchapter 3.4. Four factors are suggested to focus on: Add-ons to the model (increase revenues and revenue streams); profit models; lock-ins; and moving with the value network. Tekniska Verken recently changed their profit model in energy, and the discussions about further changes to align with the market are ongoing in the organization (TV: Q11). The light-post casting unit, OnlinePizza and JaRocka are intensely looking for new streams of revenue, and add-ons to their core model. Energy and OnlinePizza are the firms that have come the furthest in adding innovative revenue streams to the model (Se figure 4.13. & 4.8.). The engines of growth seem to be working adequately in Energy and with OnlinePizza. JaRocka, however, should see over how they are growing if they are interested in keeping revenues flowing. Strömqvist (2013c) suggests that the photographers are coming in waves and the current acquiring system is flawed.

OnlinePizza is the case that has managed to lock-in their customers most efficiently, through the network effect their model provides. JaRocka is struggling here as well, because of their lack of ownership over the end-customers.
As figure 5.6 illustrate, the experimenting is not finished only because a model reach a mature stage. Experimenting with different components and customers can help fine-tune the model and thus capture more value. Table 5.7 provides tools and potential outcomes of experimenting and analyzing with internal factors.

<table>
<thead>
<tr>
<th>Creating Value</th>
<th>Tools</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>Generate new value curve</td>
<td>Value curve, BoC</td>
<td>Achieve a starting point for experimentation. Getting an idea over what potential customers want, and how to deliver it.</td>
</tr>
<tr>
<td>Experiment with different components</td>
<td>BMC, MVP</td>
<td>Fine-tuning the new value curve. Getting an idea of how different factors in the value curve can generate value through different component-solutions</td>
</tr>
<tr>
<td>Experiment with different customer tiers</td>
<td>10 Types of Innovation (1OT), tier onion, Value curve, BoC</td>
<td>Finding out who would buy the solution. Reducing the gap from the idea what potential customers want, and the actual thing they want.</td>
</tr>
<tr>
<td>Reconfigure new value curve</td>
<td></td>
<td>Aligned to scale up business model.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Capturing Value</th>
<th>Tools</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>Add-ons</td>
<td>BMC, MVP</td>
<td>Increased revenue streams.</td>
</tr>
<tr>
<td>Profit models</td>
<td>IOT, BMC</td>
<td>Ability to capture more value from more people</td>
</tr>
<tr>
<td>Moving with Value Network</td>
<td>Sustaining Innovation</td>
<td>Capturing upstream value (higher margins)</td>
</tr>
<tr>
<td>Growth</td>
<td>Engine of Growth</td>
<td>Ability to reconfigure the way the firm expands. Ability to pick up flaws in current engine of growth.</td>
</tr>
</tbody>
</table>

Table 5.7. Tools proposed to use for internal experimentation (and analysis).

5.3. Creating the Framework - Change

<table>
<thead>
<tr>
<th>Change</th>
<th>JaRocka</th>
<th>OnlinePizza</th>
<th>Tekniska Verken</th>
</tr>
</thead>
<tbody>
<tr>
<td>Changing direction</td>
<td>Trends and life cycles induce change. Market decides if change is kept.</td>
<td>Optimizes by using data, searches for new global optima by leaps of faith.</td>
<td>Constant discussions on when and how to change. Structured processes for the emergence of new business models.</td>
</tr>
</tbody>
</table>

Table 5.8. Changing direction and accounting.

The discussion in chapter 3.1. showed how hard it is for organizations to change. Changing direction has emerged as an even more central component when considering the framework as a whole. Change is crucial when considering both the internal and the external factors. Though change has been discussed in both 5.2. and 5.3. it is worth noting how the companies work when jumping to new trajectories or sub-trajectories. Table 5.8. display the companies’ view on change.

JaRocka that operates in a mature industry, jumps to new trajectories and industries by leveraging the experimentation made to create the platform. Their willingness to be ahead of the curve
neutralizes the potential myopic tendencies organizations risk when moving with the value network (Chesbrough & Rosenbloom, 2002). OnlinePizza is making a leap of faith towards a cellphone platform, Mellström Byrenius (2013) sums it up beautifully in OP: Q7 and OP: Q8. Mellström Byrenius’ (2013) quotes align with March (1991) discussion on suboptimal equilibriums, and the need to jump to new trajectories. Tekniska Verken’s new approach towards enabling innovation processes also seems to be a step towards a more change-tolerant environment. However, in Tekniska Verken’s case, there are also tendencies for less experimentation than before (TV: Q9) and they must look out for the danger of only letting through innovations that align with current value networks and profit margins.

In the framework, change is moved from the outer boundaries of the model, into the middle. This in order to highlight the importance of change. Both the ability to detect it, as well as the ability to act on it and experiment with different directions.

5.4. The Iterative Business Model Innovation Framework

The result of the discussions throughout chapter 5. is the Iterative Business Model Innovation Framework (figure 5.9). The framework takes an holistic approach to business model innovation:

![Figure 5.9. The Iterative Business Model Innovation Framework.](image-url)

In figure 5.9., change (radical) is placed in the heart of the framework. The arrows toward change from the different components illustrate that information of that change is upon the organization
can come from all places. As the thickness of the arrows suggest; the most likely place a company will discover opportunities for new radical change is when they detect changes in the environment or in customers and non-customers’ preferences. But as the arrows from creating and capturing value also hints at, ideas for radical change can also come from experimentation and fine tuning within the company. Explanations for the other factors are to be found in subchapters 5.1 and 5.2.

For organizations the framework could help them to assess whether they are high or low in monitoring, non-customer knowledge, experimenting to create value and capture value. It can also be divided further, the framework suggests 15 areas where the companies should evaluate if they are strong or weak; looking at (1) the macro environment, (2) the industry, (3) substitute and close industries, (4) complementaries. (5) Ability to analyze customers, (6) 1st tier non-customers, (7) 2nd tier non-customers, (8) 3rd tier non-customers. (9) Ability to create new value curve from the information derived in the 8 first steps, (10) ability to classify components where change can be made, through the BMC and Keeley’s (2013) ten types, (11) create MPVs, (12) ability to create a second new value curve from the experimentation in the previous steps. (13) Ability to reconfigure and fine tune the engine of growth, (14) ability to lock in customers to the offering, (15) ability to create add-ons to the service. Figure 5.10 illustrates the factors in a spider diagram:

**Figure 5.10. Spider-diagram of the factors in the Iterative Business Model Innovation framework.**

Derived from classifying and comparing companies in accordance to the factors should give insights on why companies have problem with creating new value curves in the first place (e.g. too low insights in different non-customer tiers or in substitute/complementary industries). As well as reasons why the companies are not adequate to create a second value curve that differentiates itself from the first one (e.g. too low ability on experimenting and reconfiguring of different components in the business model). This should eventually give companies insights on where they can improve and become open to radical reconfigurations. See Appendix 4 for an example of how analysis of the diagram can be used. There, the three case companies are ranked and analyzed.
6. Discussion

*A king has his reign, then he dies. It is inevitable.* (Vickers, 2093)

The quote above is from the character Meredith Vickers in the movie Prometheus (2012). It comes to mind when considering the challenges posed in this thesis. It has been shown how hard it is to reign for a longer period of time. This because success has a tendency to trap companies in a myopic state where change will be resisted. Changes in the environment will eventually make the reigning model obsolete, and thus killing the companies using it.

In the thesis I argue for solving this dilemma through business model innovation, in particular through a derived holistic framework (5.9.) that could systemize companies processes to iteratively create models that radically reconfigure the business they are in.

Three research questions where posed in the introduction; (1) What could be synthesized from current innovation and business model literature? (2) How have the three case companies successfully implemented and executed their business models? And (3) How does the derived factors in the answer of research question 2 align with the synthesis made when answering research question 1?

The first question is answered in the synthesis of theory (3.4). It could be argued that different theories should have been included in the synthesis and that it is incomplete because of that. When screening for literature, I have tried to balance theories that have been given much weight by the academic community with theories of less weight, but that have showed highly interesting tendencies directly connected to the purpose. Certainly, theories exist that would match the framework differently (better?) but I feel comfortable arguing that figure 3.14. is a good model when considering the current innovation and business model literature.

The emergence of successful business models in the case companies have been presented through the lens of Osterwalder & Pigneur (2010) BMC, and valuable quotes have been accounted for. Similarities and differences between the companies have been analyzed in chapter 5., and the derived factors have helped building and evaluating the framework. Thus, research question 2 and 3 has been answered.

Going back to the first question posed in the thesis; Can new business models be the answer for all industries in decline? My answer would be, after this study, that the question is somewhat misdirected, and instead of talking about industries, one should talk about the companies in the declining industries. Reframing assumptions and problems, and reconfiguring business models can jolt declining industries or lead the companies into new trajectories in other markets or industries. Questioning the components in the current business models constantly can and should extend the life of several companies. The Iterative Business Model Framework offers one approach to do just that.
The framework is in no way finished, as is illustrated in table 2.2., the work has just begun. A model has been built and qualitatively evaluated. Further evaluation, theorizing and justification must be done. Looking at the components in the framework, and the analysis and experimenting demanded behind each of the components, there seems to be very much work to be done. If following the framework, one must analyze the macro environment and several industries. Different customer tiers and their preferences must be taken into consideration. This will give the company a base on what they are offering with today, and what they could be offering tomorrow. The derived knowledge base is to be tested and experimented with through several tools, such as the value curve, the BMC and use of an MVP. Iteration is demanded by the company in question before a new business model is calibrated. This process is ongoing and constant, when the business model is capturing value, the organization should be out there looking for new reconfiguration simultaneously.

6.1 Future research
The first question asked to future researcher: Can the proposed framework have the effect that is suggested? Does it iteratively create and capture new value in organizations. Secondly, considering all steps discussed above, what kind of organizations can implement a structure so that they enable themselves to follow the proposed process? Logically, it should mainly be big organizations that have the resources to iteratively follow the steps proposed. It would be interesting to contrast how the framework is worked with in a big organization versus a smaller firm. It should also be interesting at studying the framework from a project management point of view. As well as more deeply from change literature. In addition to this I propose that the framework is further analyzed and evaluated in accordance to March & Smith’s (1995) design science methodology.
7. References


Elez, M., 2013. Head of Energy Division at Tekniska Verken. [INTERVIEW] Interviewed by: Gudjonsson, K., at Tekniska Verken’s Headquarters (3rd of May), Linköping.

Falk, J., 2013. Cofounder and CEO at JaRocka. [INTERVIEW] Interviewed by: Gudjonsson, K., At JaRocka Headquarter (2nd of May), Linköping.


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Strömqvist, J., 2013c. Cofounder and developer at JaRocka. [INTERVIEW] Interviewed by: Gudjonsson, K., At JaRocka Headquarter (9th of April), Linköping.


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Appendixes

Appendix 1. The questions that guided the interviews

Vad är en affärsmodell för er?
*What is a business model for you?*

Hur ser er affärsmodell ut? Hur ser flödena ut (information, intäkter, kostnader), vilka är de viktigaste komponenterna?
*What does your business model look like? How does [information, revenue and cost] flow? Which are the most important components?*

Hur kom ni på er nuvarande affärsmodell?
*From where did you get the idea for your current business model(s)?*

Hur utvecklades den från idé tills vad den är idag?
*How did it evolve from an idea to what it is today?*

Vad har ni för processer för innovation på ert företag?
*What processes for innovation does your company have?*

Hur tänker ni kring genererandet av nya affärsmodeller?
*What are your thoughts on the generation of new business models?*

Hur tänker ni kring nya idéer som inte passar ihop med era nuvarande affärsmodeller eller er kärnverksamhet?
*What are your thoughts for new ideas that do not align with current business models, or your core business?*

Hur och var letar ni inspiration till nya idéer?
*How and where do you look to inspiration for new ideas?*

Försöker ni matcha in idéerna ni har in i era befintliga affärsmodeller, eller föredrar ni att skapa nya affärsmodeller och intäkter till nya idéer?
*Do you try to match the ideas generated into your current business model(s) or do you prefer to create new business models and revenues for new ideas?*

Har ni bra koll på vart era konkurrenter erbjuder förlösningar?
*Do you have a good idea of what solutions your competitors are offering?*

11. Har ni bra koll på vad företag i liknande branscher erbjuder för lösningar till sina kunder?
*Do you have a good idea of what solutions companies in similar industries are offering to its competitors?*
12. Har ni koll på förändringar i omvärlden som kan leda till möjligheter för er?
_Do you monitor changes in the environment that could lead to opportunities for you?

Vad är den största faktorn till konkurrenskraft i er bransch?
_What is the basis of competition in the market you compete in?

Vilka är det ni försöker attrahera med er affärsmodell?
_How do you do that?

Vilka skulle kunna vara era kunder i framtiden?
_How could they be that?

Letar ni aktivt kunder utanför er marknad? Eller fokuserar ni på att vinna marknadsandel först och främst?
_Do you actively look for customers outside of you market? Or do you firstly focus on winning market shares in current markets?

Har ni några processer för att identifiera icke-kunder?
_Do you have any processes to identify non-customers?

Har ni gjort några drastiska ändringar i er affärsmodell?
_Have you done any drastic changes in your business model(s)?

Experimenterar ni med olika lösningar i stor utsträckning?
_Do you often experiment with different solutions?

Hur tänker ni kring prissättningen av era erbjudanden?
_What are your thoughts on the pricing of your offerings?
Tror ni att ni skrämmer bort vissa segment genom er prissättning?
Do you think some segments are reluctant to use your offering because of your pricing?

Hur har ni tänkt när ni funderat på att låsa in kunder till er model?
How do you try to lock-in customers to your business model?

På vilket sätt växer ni, kundmässigt?
How do you acquire customers in order to grow?

På vilket sätt försöker ni behålla kunder
In what way do you try to retain your customers?

Appendix 2. OnlinePizza’s PizzaBox

[Image of OnlinePizza’s PizzaBox]

OnlinePizza’s Pizzabox. (Picture from onlinepizza.se)
Appendix 3. Understanding of flows in models pre-interviews

In order to get a feeling of what was known in each of the business models before coming into the interview, the visualization of the business models are made available. The last case presented, the light post-casting was visualized before Elez Interview, and got approval from the interviewees at Tekniska Verken, and is therefore not changed.

Pre-understanding of JaRocka’s business model

![Diagram of JaRocka's business model](image)

*Figure A1. Pre-understanding of flows in JaRocka’s business model. Before interviews.*

This model was used in Garcia et al.’s (2013) paper on Business Model Innovation in the mass photography industry in Sweden. It is based on one face-to-face interview made with Strömqvist (2013a) and two other interviews made with him via telephone and mail. It is also based on information from allabolag.se (allabolag, 2013a) and from my understanding of JaRocka through observations (photographs assignments and informal talks).
Pre-understanding of OnlinePizza’s business model

This model was done based on use of the offering (onlinepizza.se), a study of OnlinePizza when considering a competing service, financial data (allabolag, 2013b) use of company documentation (OnlinePizza, 2012; OnlinePizza, 2013) and informal talks to restaurant owners.
Pre-understanding of Tekniska Verken’s business models

Figure A2. Pre-understanding of flows in energy division’s business model. Before interviews.

The understanding of the flows are based on a lecture from Kollberg & Jakobsson, company documentation (annual reports), interviews from my previous master thesis (Dahl et al., 2012) and from informal talks to a project leader. The light post-casting model is also based on information from the main interview with Tekniska Verken.
Figure A3. Understanding of flows in the light-post casting business model.
Appendix 4. IBMIF spider diagram applied on the case companies

Figure 5.10. (Spider diagram of the factors in the Iterative Business Model Innovation Framework) suggested that the diagram could help when assessing strengths and weaknesses in the factors of the Iterative Business Model Innovation Framework (IBMIF). To make the statement more tangible, a spider diagram of the three case companies is presented in figure A4. based on the tables presented throughout chapter five:

![Image: Appendix 4. TV, OP & JR's IBMIF factors assessed with the derived analysis (Chapter 5.).]

The three companies have different strengths and weaknesses. One thing that unites them is that they all have a pretty high average score. This is to be expected since the companies have all managed to reconfigure their processes and create and captured new value before.

### Basis of Competition

Both JaRocka and Tekniska Verken have high scores in analyzing the basis of competition. JaRocka has more informal processes to do so, whilst Tekniska Verken has formalized processes in order not to miss big opportunities that occurs in the environment and in industries close to Tekniska Verken’s. OnlinePizza scores contrast the high scores of the other two companies. Though they look for changes in the basis of competition, they do not seem to do it to the same extent as JaRocka and Tekniska Verken. Narrowing the focus down to complementaries, it is reasonable to think that JaRocka and OnlinePizza have a better basis of analysis since they are so dependent of how it goes in complementary industries. Table A5. introduces direct advice to the case companies, most could be done in OnlinePizza. The company should set structures that induce discussions about events that can create opportunities in all of the discussed environmental factors (ME, I, S/C I, CI). For example, focusing more at what happens in the industry and close industries, OnlinePizza can assess where they and other companies stand on overshooting customer demands (making an industry value curve), and thus put energy on reconfiguration of the business model so that they
instead align with the new customer demands. Again, an explicit suggestion is to create value
curves for the industry and the other close industries suggested in the framework.

<table>
<thead>
<tr>
<th>Advice</th>
<th>JaRocka</th>
<th>OnlinePizza</th>
<th>Tekniska Verken</th>
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<tbody>
<tr>
<td>Basis of Competition</td>
<td>Keep informal processes and discussions about different factors in environment.</td>
<td>Create structures that induce discussions on events in the macro environment, close industries and in the industry.</td>
<td>Keep and further enhance structure that enables management to pick up and discuss tendencies in the environment.</td>
</tr>
</tbody>
</table>

Table A5. Advice to the case companies considering the basis of competition

Tier-Onion
Comparing the companies with where they are when studying the different tiers of the tier-onion, OnlinePizza seems to have the best processes to identify and test how different tiers would react to different solutions. This also heightens their ability to produce MVPs, because they know which customer tiers to experiment with. Their techniques of using fictive and real customer types to find out more about certain segment show that they think much about 1st and 2nd tier non-customers. Their broad view of customers suggests ideas that they think about third tier non-customers as well.

JaRocka has deep knowledge about the customers, and the 1st tier of non-customers. This is probably much thanks to two of the co-owners large experience within the photography industry. It is also because they seem to focus much on how the current customers and the non-customers, which are on the brink of paying for JaRocka’s offering, behave in purchase situations. They are thinking a lot of how they can find other customer types and segments to their company, but have not yet managed to produce any result. Though they have not explicitly launched something towards second and third tiers non-customers, they are experimenting with the new platform that will bring other customers to the company.

Tekniska Verken are limited to serve end-consumers within the region. Their scores are lower than the other two companies because they have been less customer-oriented than the other companies. TV should get kudos for finding customers that no one had thought of before. Allowing other cities (in other countries) to sell them waste is one example of this.

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<tbody>
<tr>
<td>Tier-Onion</td>
<td>Increase analysis of 2nd and 3rd tier customers. E.g. By using OnlinePizza’s approach. Experiment with 2nd and 3rd tier customers.</td>
<td>Keep structures of fictive customer types. Brainstorm, discuss and experiment more with potential 3rd tier non-customers.</td>
<td>Understand the real needs of current customers better. Keep structures that allow them to find paying entities all over Europe.</td>
</tr>
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</table>

Table A6. Advice to case companies considering the tier-onion.
Creating Value

All three companies have managed to create adequate first drafts of a new value curve. Examining Tekniska Verken's ability to do that, it can be because of their structured approach of monitoring the environment. JaRocka are strong both in monitoring the environment and looking at customers and 1st tier non-customers making it possible to do adequate assumptions about current customers needs and factors of competition in the mass-photography industry. OnlinePizza, which lacks some of the monitoring if contrasted to the other case companies, compensates with good processes to identify the different tiers in the tier-onion.

One thing that is suggested in the IBMIF is to classify different components and types of innovation in order to know what type of reconfiguring can be made. Tekniska Verken seem to have good processes for this, they have created models and frameworks that help them to identify different types of innovation and what components they can reconfigure for value creation. Both JaRocka and OnlinePizza do not seem to have this to the same degree. The processes for identify specific types of components are much more fuzzy than in Tekniska Verken.

OnlinePizza are most aligned with Ries (2011) thoughts on learning through building MVPs. They try to get quick customer feedback from their changes, their loops are probably faster because of the thorough work they do with different customer types (and non-customer types). JaRocka still creates entire offerings before launching it to market, making their scores lower than OnlinePizza. Still JaRocka changed their entire system from the initial idea. Thus showing that experimentation is vital to move forward in the company. Tekniska Verken is moving away from (extensive) experimentation and wants instead to have more structures in place. This can perhaps stifle them, and that shows when placing them lower than both OnlinePizza and JaRocka in creating the new, new value curve.

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<tr>
<td>Creating Value</td>
<td>Put structures in place to identify different types of innovation and components of the business model. This in order to find places where reconfiguration to create new value is possible.</td>
<td>Put structures in place to identify different types of innovation and components of the business model. This in order to find places where reconfiguration to create new value is possible.</td>
<td>Give more room to experiment directly with customers. Some features should be allowed to be tested before moving through all Tekniska Verken's stages before an offering hit the market.</td>
</tr>
<tr>
<td></td>
<td>Try to shorten loop (build-measure-learn) by launching “under-featured” products to the market.</td>
<td>Further shorten build-measure-learn loop.</td>
<td></td>
</tr>
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</table>

Table A7. Advice to case companies considering creating value.

Capturing Value

Looking at the three factors in the IBMIF that works to capture value, JaRocka has the furthest to go. They have tried to experiment with different engine of growths, without really succeeding. They are also only able to lock-in the photographers to some extent, but not the consumers. Examining
JaRocka’s ability for add-ons, they have good processes in place to maximize money spent on the core product by the consumers, but they still only have one source of revenue.

OnlinePizza seems to work well with the engine of growth, both towards the customers, and towards the restaurants. They also seem to constantly be looking for new ways to add revenue to the organization by finding new streams of revenue, on top of that, they lock in the customers with a network effect (discussed in chapter 5.). Tekniska Verken has constant discussions on how they should keep and increase revenues, if current components are obsolete, and when it is time to change them. Though not seeing any formalized structures on add-ons lock-ins and how to grow, it seems that the business developers and top management keep these factors in their mind and discuss them iteratively. It shows, for example, when Kollberg (2013) discussed how the light-post-casting business models opportunities for growth and add-ons. For a big organization like Tekniska Verken, perhaps these discussions should be made more explicit and become processes or check points when considering how to become profitable.

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</thead>
<tbody>
<tr>
<td>Capture Value</td>
<td>Put focus on how to grow. Create tangible action plans for how to grow. Focus on how to lock-in customers.</td>
<td>Keep focus on capture value factors. Enhance and maintain network effect effects.</td>
<td>Structure processes to capture value; How will each offering grow? How will it lock in the customers? What are the potential additional revenue streams?</td>
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</table>

*Table A8. Advice to case companies considering capturing value.*

**Overall implications of the scores and discussion about industry life cycles**

Adding the product life cycles of the company into the analysis, it is perhaps not so strange that OnlinePizza excel at add-ons and are worse at monitoring the environment. They are in a stage where they are growing rapidly with their current products and business model. JaRocka’s search for new markets and heavy monitoring of the environment are also not that strange since their current industry is in decline. It is also logical that Tekniska Verken, that operates in many industries, in many different life cycles score high in factors that are easier to create explicit processes for.

Having good knowledge about the external factors seem to ease the process of creating new offerings for the companies. However, they should all work (TV and JR the most) on cutting time from idea to market. By doing that they can improve their new, new value curve and experiment more with factors that capture value from the initial radical ideas. OnlinePizza should be aware that their external monitoring, relatively, is not high. As said in the previous paragraph, this is logical since their industry is growing so fast. However, this also means that they run the risk of missing big opportunities to create new business models in industries close by or in industries where the resources and capabilities of OnlinePizza could come in handy. All in all, organizations should strive for having high scores throughout the diagram, formally or informally. Having high scores should make them responsive to opportunities occurring in the environment, in customer preferences, in internal experimentation, and when fine tuning the business model.