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SESSION 6: Multiple Models

Session Objectives

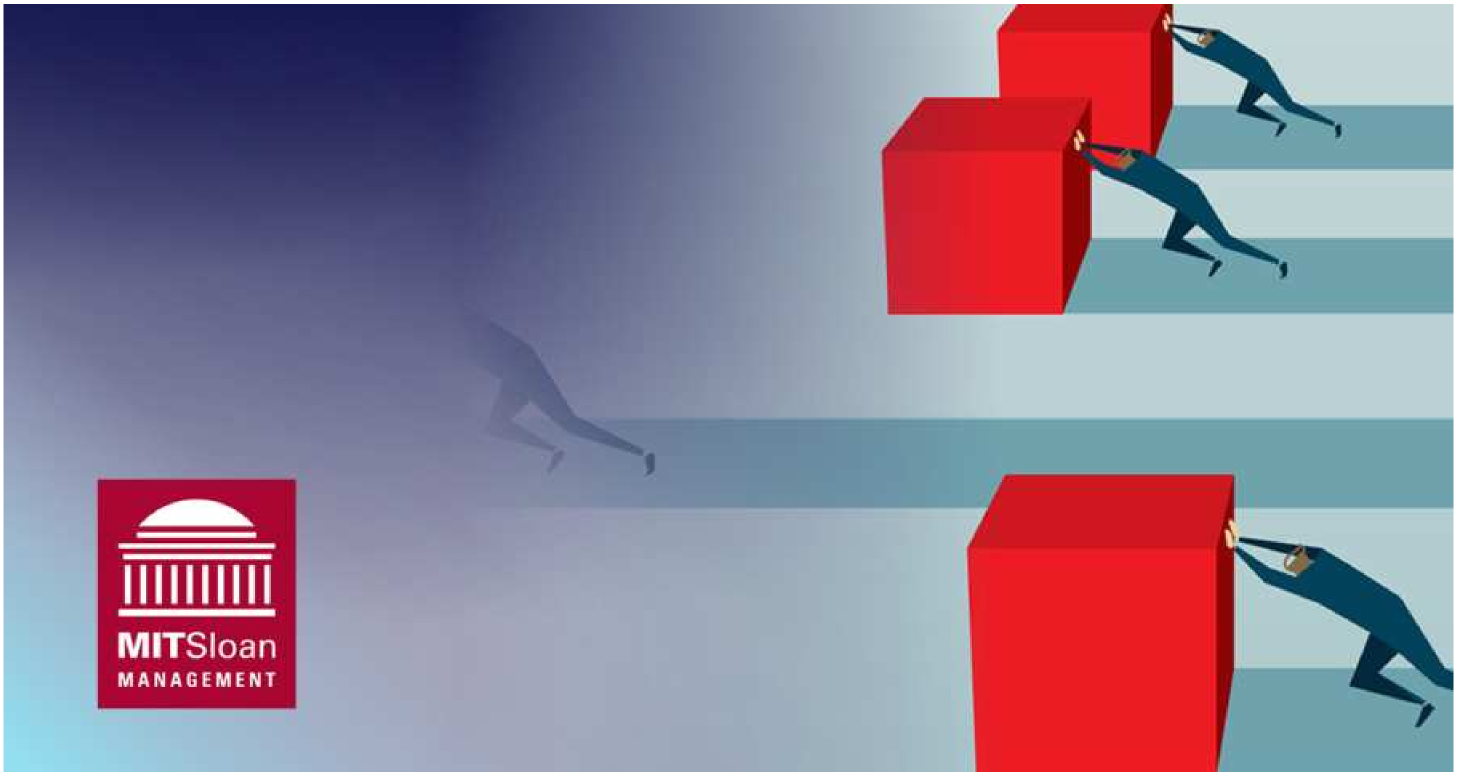
1. Review the key findings on Multiple Models from the IRG Growth Study

2. Recognize the need to better connect Marketing to other functions, especially Finance to drive growth

3. Understand how to engage in business model conversations sooner, with more colleagues, and more often

Prereads

To help prepare and inspire you, please enjoy these optional prereads.



The Hard Truth About Business Model Innovation

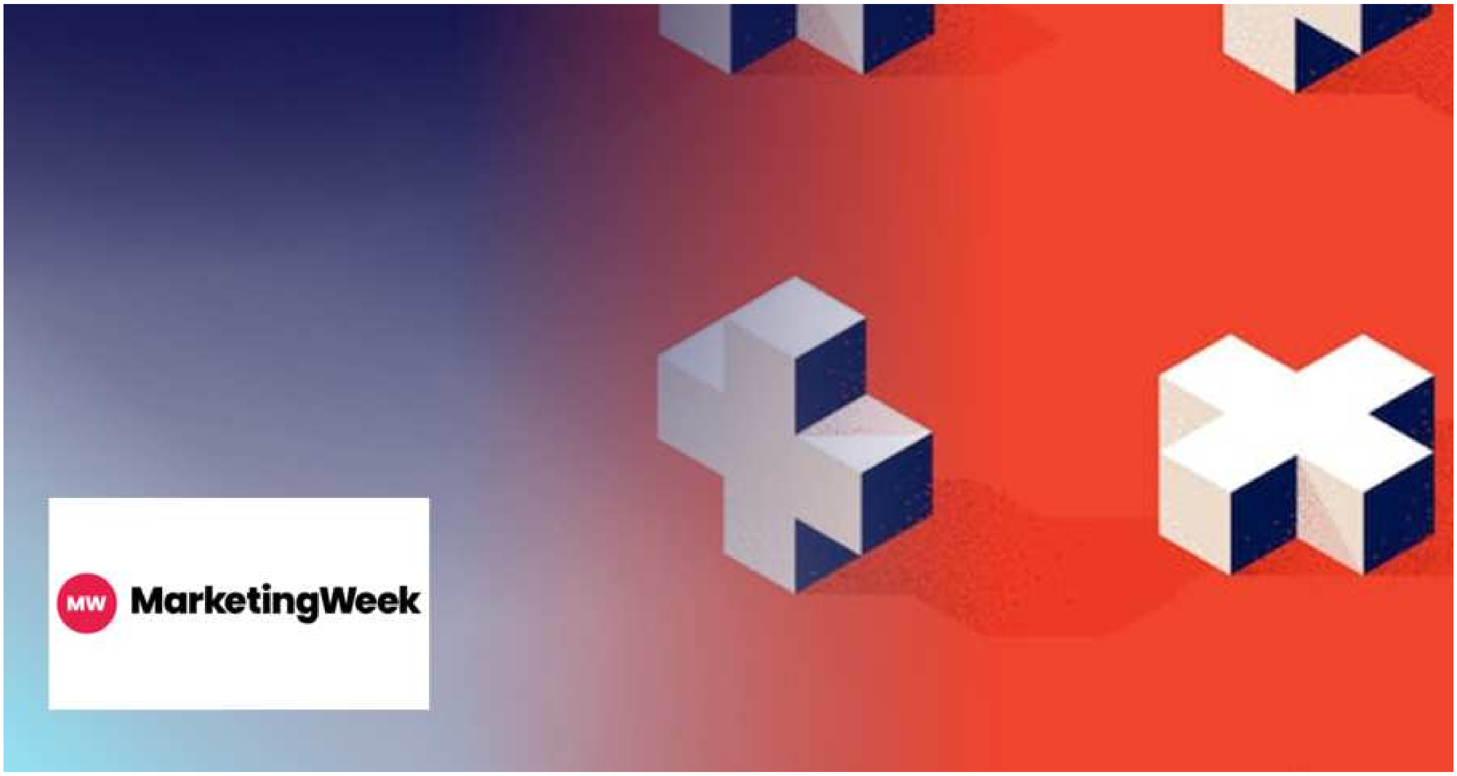
(20 min read)

Innovating your business model is easier said than done. This article from MIT Sloan lays out how business models develop through predictable stages over time, and why so many business model innovations fail. *Click* *here* *to read.*

Every Business Can Be a Subscription Business

(27 min listen)

In this podcast, Robbie Kellman Baxter argues that every business can be a subscription business. She explains how even during an economic crisis, leaders can adopt a subscription business model to give their organizations a better chance of surviving and thriving. *Click here to listen.*



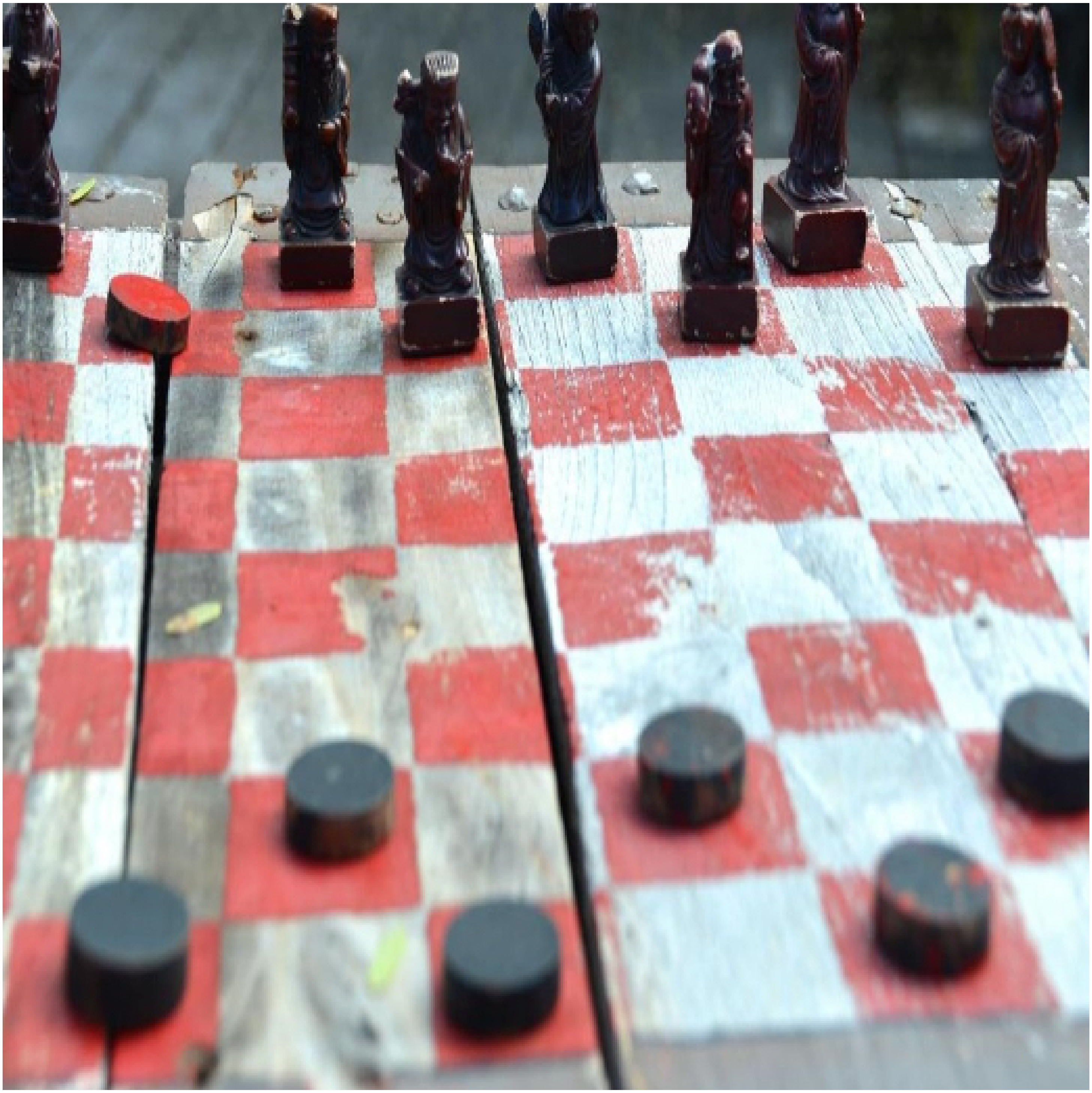
Purpose & Pricing Power
(10 min)
Chris Burggraeve argues that brands need purpose and pricing power, not one or the other. But to really convince financial stakeholders, marketers need to urgently upgrade their marketing effectiveness language. He shares his perspective on Pricing Power as *the* tool to do this. *Click here to read.*

Self-learning Session

This week's session is to be completed on the platform (there is no live Zoom).
Scroll down to complete the Multiple Models session.

Working with Multiple Models

The IRG Growth Study showed that growth overperformers are significantly more willing to accept new business models and accept working with multiple business models at the same time – playing chess and checkers simultaneously. Like the examples of Coke expanding into coffee and Pepsi acquiring Sodastream. And win in multiple models, this requires a strong relationship with Finance and other functions of the business.



Winning Approaches to Multiple Models

what we consider the important lessons learned. In other words: what it takes to win and do Multiple Models well.

Select the next arrow to find out more.

Start with Hard Data +

Closing the Gap

In this next section, we will share two tools that will help Marketing close the gap between Marketing and other functions, especially Finance:

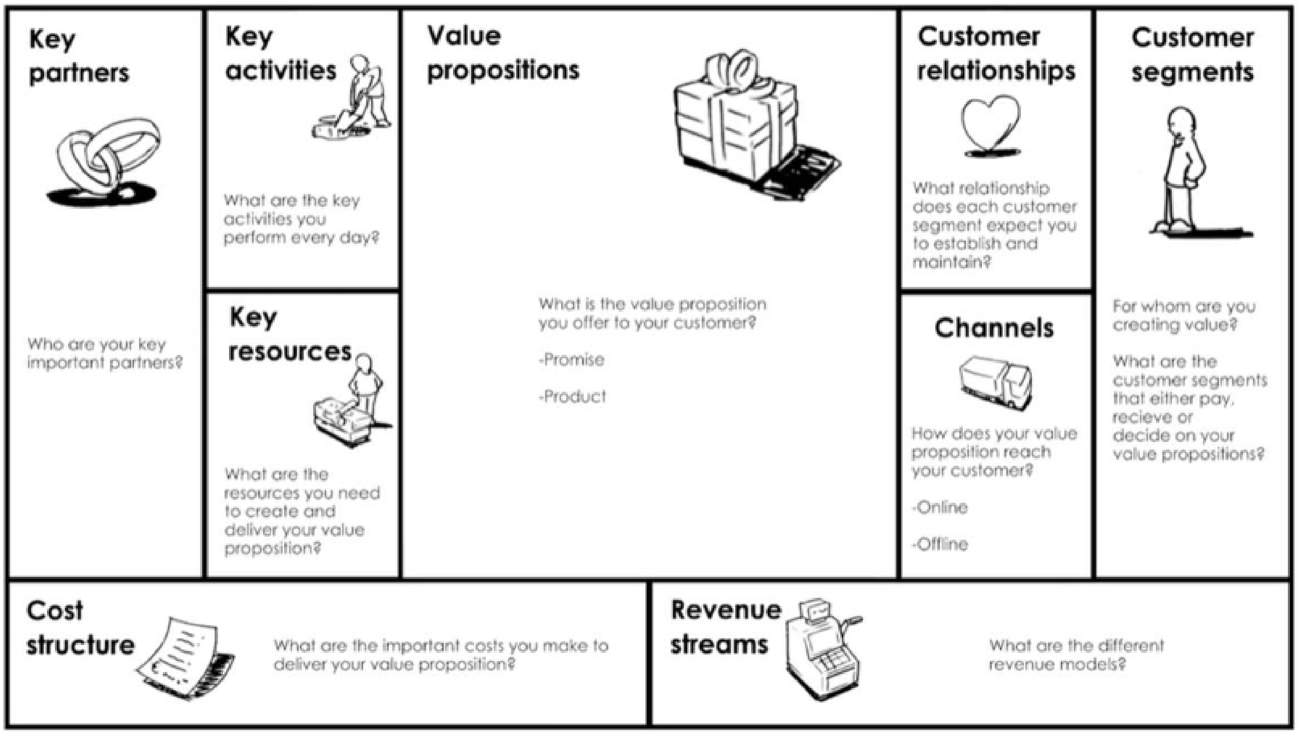
Closing the gap: the Business Model Canvas

Experimenting with a new business model probably means that you will need to build a business case to convince others that this is a route worth exploring, and building a business case is not something that comes naturally to all marketers.

The Business Model Canvas (BMC) tool helps you do exactly that. A simple, comprehensive, visual and intuitive approach already used and proven by thousands of marketers around the world, it will help you discuss a variety of potential new business model approaches, without resorting to laborious spreadsheets and financial modeling.

In this next video Maaike Doyer from Business Models Inc, partner of the IRG, guides us through exploring the template.

Press the play button to start the video.



When we speak about value proposition, we talk about two things: your promise, and your product. For example – for a beauty brand a promise would be that you will look 10 years younger, and the product could be a face cream. Make sure you have both clearly defined, together they are the value proposition.

And how does your product reach your customer? Through which channels does it go? Is it online? Is it offline? Especially the last year we've seen many changes in channels because companies have had to find different ways of reaching their customers. What are those different channels?

Once you have the customer, how do you keep the customer? What is the relationship? How do you stay in touch? Or is it just the transaction and then it's done? Do you have a way to keep the customer coming back?

And then, what are the revenue streams? How do you make money? How do you charge for your products? Is it per product? Is it a subscription model? What other ways do you have of charging your customer?

This side of the business model canvas is what we call the front stage. This is what the customer sees. The other part of the business model canvas is backstage. That's what happens behind the curtains. That's everything that you need to do in order to get your value do? What are the key activities? These are typically verbs, things that we're doing to get our value proposition to our customer.

And who are we doing this with? Who are our key partners? Not just the average supplier but really someone who helps you to increase the value proposition to your customer. And bottom line, what are the costs? This together is the business model canvas. Pretty straightforward, right? When you see it for the first time, and that's also the beauty of this, everyone will understand the business model canvas. No matter where they are in the organization, everyone gets it.

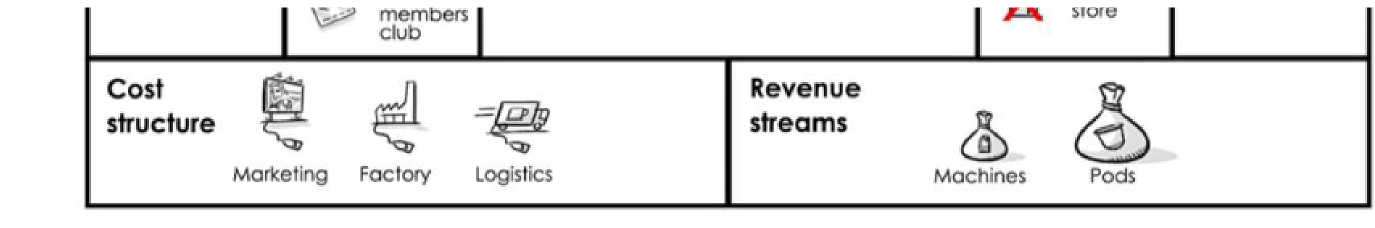
What I really like about the business model canvas is that if you change one of the building blocks, it immediately interacts with the other blocks. For example, imagine you want to add an online channel to your business, this could have a knock-on effect on your product, possibly even your value propositions. You could be reaching different customer segments and you might need to change how you charge those customers. And what do you need to do behind the scenes in terms of resources, in terms of activities? Perhaps, you even need to have different partners to get your value proposition aligned and delivered to your customer.

I hope you can see, this is a great tool to facilitate strategic conversations with your peers, partners and colleagues. It's not so much about getting the right answer, as it is about helping you to quickly explore different models and the impact of those models on your business.

Exploring Nespresso’s Business Model

Let's take a look at the Nespresso business model, through the lens of the BMC.

Press the play button to start the video.



And who are the customer segments? We see two different customer segments from a business model perspective. One is good coffee at home, and the other one is good coffee in the office.

What are the channels? Where can you buy Nespresso? If you think about it, it might actually be more interesting to ask the question, where can you not find Nespresso, because what we see is you can buy Nespresso online, there are specific Nespresso stores. But you can typically not buy Nespresso from your average grocery store. That's interesting, because that is where you would traditionally buy your coffee. When Nespresso first launched, they had the pods, and the machines, and they were selling in the grocery store, but they weren't doing that well. It wasn't until new leadership came on board, and they first changed the channel, taking it out of the supermarkets, and secondly they changed the customer relationship.

So, what is so special about their customer relationship? It's the club. Because whether it's you or George Clooney, we're all special, and we're all members of the club. This was a very strategic move. By taking it out of the supermarket and into the club, all of a sudden they're gathering all this data about their customers. They now know exactly who's buying what, when, and where, while in the grocery store, it's anonymous. You have no idea who's actually buying your coffee.

within the business model of Nespresso.

So what are the key resources? Nespresso needs to have a factory. They used to have the patent on the pods, and as we know that one expired. So that one brings some interesting dynamics in the business model. There's also the data from the members of the club, which is definitely a big resource for Nespresso. Their key activities are marketing, production, and logistics. And who are the key partners? Who really adds a lot of value to the core proposition of Nespresso? It's the producer of the coffee machines, because without the machines, the business model would not fly. So that's very crucial here. In terms of costs: there's marketing, they need to pay George, there's the factory for production, and there's the logistics.

So this is a snapshot of the business model of Nespresso. But business models are dynamic. With the patent expired there's pressure on the existing model of Nespresso, and this means their brand and customer relationship is becoming even more important. It will be very interesting to see if they can hold on to their edge.

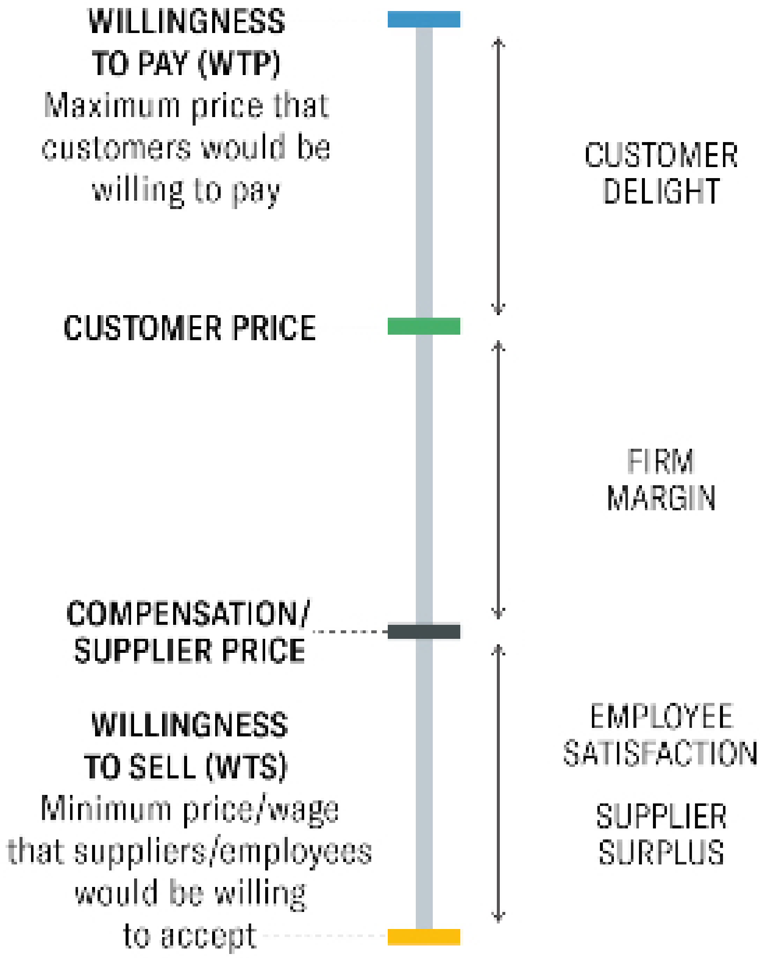
Closing the gap: Pricing Power

Pricing Power is seen by Wall Street as ***"the ability to raise prices without curtailing demand or losing share to a competitor"***, and by Main Street as the queues we see outside the shops, whether physical or online.

Increasing a consumer's willingness to pay (WTP) – the maximum price a consumer is willing to pay – drives profit and cash flow, concepts that finance understands well. Why does this matter? Because Marketing has a huge impact on a consumer's willingness to pay, as the function that drives how consumers think, feel, and act toward a brand. Refocusing the conversation with Finance on driving Pricing Power is a powerful tool to bring the two functions together.

The Value Creation Opportunity

When companies find ways to increase customer delight, employee satisfaction, and supplier surplus, they expand the total amount of value they create and position themselves for extraordinary financial performance.



Importantly though: it's not about driving Pricing Power at any cost. The pandemic served as an excuse for many organizations to increase prices. Tyson is the second-largest meat manufacturer in the world. With growing inflation, CEO Donnie King raised prices, claiming, "Costs are hitting us faster than we can get pricing at this point". In the meantime, profits doubled.

Humanized Pricing Power is about delivering value across stakeholders: Consumers, Colleagues, Communities, and Capital markets. Marketing can do this by creating purposeful brands that command a premium because they are meaningful to stakeholders, for the right reasons.

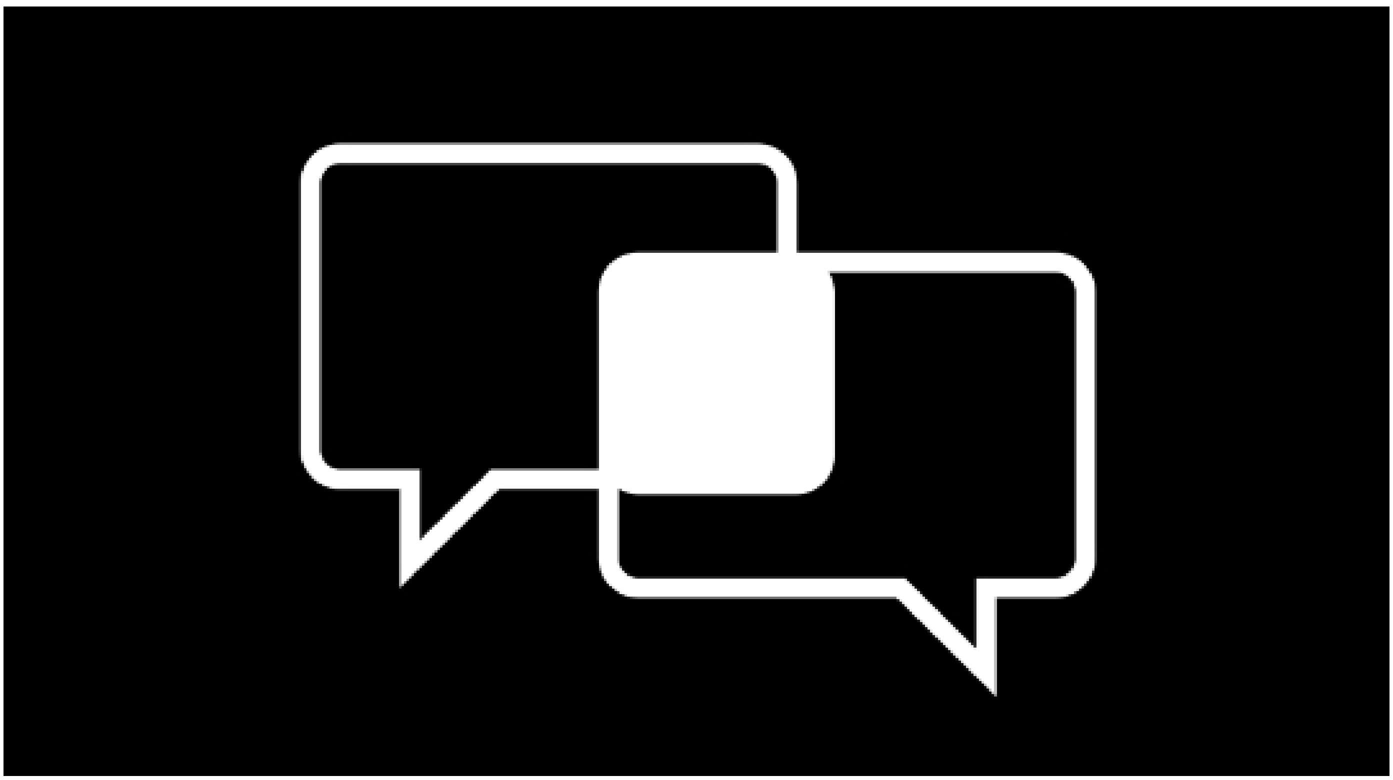
Your Role

finance is a productive one. Read on to find out how.

Select each heading to find out more.

Aligning language and objectives

Understand the shared goals that all functions in the organization are working towards. Then align on what objectives support each other, and what objectives are conflicting and therefore cannot co-exist. This will help functions understand where they add value and in which way, and also will make clear what doesn't work as a measure of success. The business model canvas can also help here: making sure things aren't lost in translation and providing a shared reality of the business across organizational functions.



Improve metrics

Build relationships

Workbook

Please answer the following question:

Where is your organization leading and lagging with Multiple Models?
Why? What is blocking success?

Key learning

1. **Overperforming organizations are better at working with different business models – they play chess and checkers at the same time**

2. **To close the managerial gap with Finance we need to speak in a language Finance understands**

3. **Growth leaders explore business models often, with many people, and early in the process – they don't focus on building complex excel sheets before having conversations about routes potentially worth exploring**

Session Reflection

Please answer the following question in your workbook:

Based on the learnings from this session, what actions can you take now to make an immediate impact?

Leadership Perspectives

In our Humanizing Growth Series webinars, we speak to leaders about their experiences with driving Humanized Growth. Norman de Greve reflects on the importance of speaking the language of business, and Deborah Koyama shares her thoughts on building business cases.

Press the play button to start the video.

Want to hear more from Norman? Click here.

Want to hear more from Deborah? Click here.

End of session: Close window

If you have any questions on either the live session or this online learning platform, please contact Program Manager Leanne Rathore at leanne@instituteforrealgrowth.com