

Viewpoints on Change

Case collection

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Business Model Innovation in practice

New paths to creating growth
and delighting customers

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Business model innovation in practice

Introduction by Morten Hejlesen

Short term competitive advantage is created by exploiting existing business models. But in the long term all markets mature, competition intensifies and turbulence increases. Consequently, new sources of growth must be explored and fresh answers to enduring success must be found.

The classic answer used to be: Innovate or die! But research shows that pouring more money into pure new product innovation does not lead to better performance. To succeed in innovation and to seize new growth opportunities, the scope of innovation must be expanded to encompass the full spectrum of business model components. While rewards are potentially big, stepping outside the comfort zone of the core business and known operating models is risky business that must be managed carefully.

The articles in this hands-on case collection investigate how a range of companies have mastered the process as well as have explored and exploited strategic options to identify new paths to creating customer value and capturing profits.

- The Danish electric mobility operator **CLEVER** has turned traditional strategic thinking upside-down to overcome challenges in an immature industry and to pave the way for the mass market breakthrough of the electric vehicle.
- The core business of Danish cable operator **YouSee** is being challenged by disruptive technologies and by launching the online streaming service YouBio, the company has shown that the road to success can include disrupting yourself.
- The ground-breaking Daily Maersk service launched by **Maersk Line** has changed the game in the highly conservative shipping industry by challenging conventional wisdom and opening up a high-end market demanding high reliability, fast delivery and high consistency.

Hopefully, the principles used by the case companies can be translated into your organisational context to help you endeavor beyond the blinders of the dominant logic and to seize new opportunities.

CLEVER: Smart choices in uncertain times

By Morten Hejlesen and Anne Meyer

The Danish electric mobility operator CLEVER A/S has turned traditional strategic thinking upside-down to overcome challenges in an immature industry and to pave the way for the mass market breakthrough of the electric vehicle. While some companies are still learning to plan in order to execute a firmly set strategy, CLEVER has chosen another path and knows that to make it in a highly turbulent industry, the most sustainable option is to plan to learn while implementing strategy.

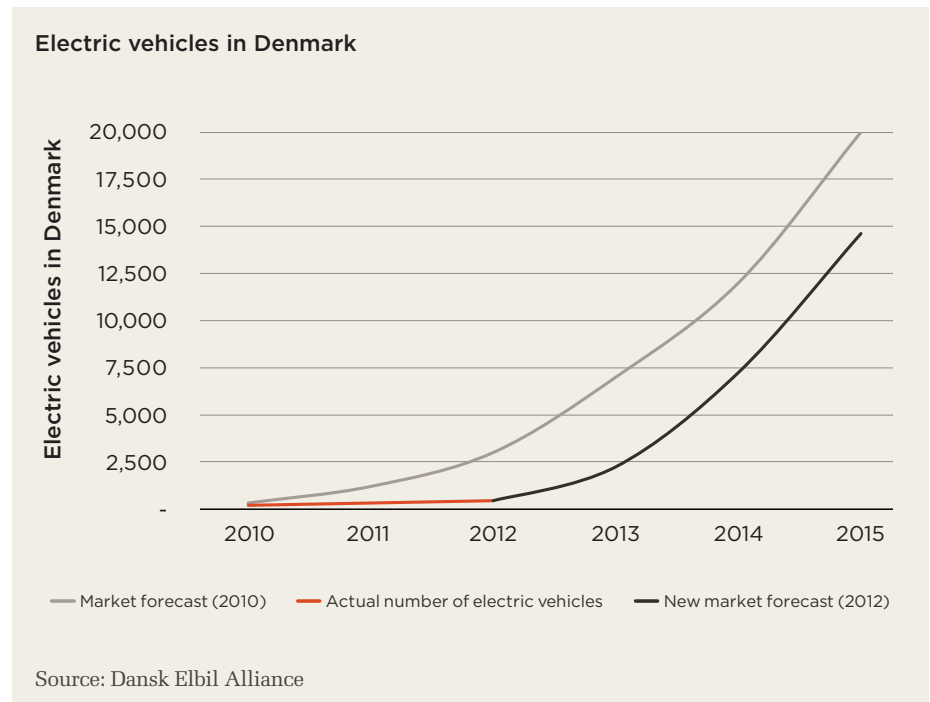
Overestimating short-term change while underestimating long-term change

Ever since the Greek philosopher Heraclitus declared that the only constant is change, the dictum has been repeated so many times that it is almost a cliché. But change is a peculiar thing and comes in many shapes. Zooming in on technological advances, a general rule of thumb tells us that change is never linear but comes in s-curves. However, our expectations are almost always linear. As human beings, it is simply challenging to perceive change as a non-linear thing. Consequently, we tend to overestimate short-term change but underestimate long-term change.

The current change within the automotive industry is a perfect example of this perception bias. For years, electric vehicles have been predicted to revolutionise the industry overnight but a closer look at the facts show that popular belief is far from reality.

On one hand, the electric vehicle is still a niche product and incumbent automobile manufacturers are reluctant to fully commit themselves to entering the electric vehicle market space and

switch to a new technology platform. New technologies require investing in new competences while looking into lower after-sales revenues due to lower need for maintenance services. Further, battery technologies are far from competitive compared to ordinary internal combustion engine technology both in terms of driving distance and costs, leading to unattractive consumer prices and lower profitability levels for automakers.



CASE - CLEVER: SMART CHOICES IN UNCERTAIN TIMES

On the other hand, the electric vehicle does hold the promise of enabling environmental-friendly transportation with low greenhouse gas emission levels, reducing dependence on oil and improving the end user driving experience remarkably. In the long term, the loading power on and off electric vehicles will also play an important role in an integrated smart grid. Governments all over the world have already gone far to support the adoption of the new driving technology with tax reductions, support from green investments funds and with tough standards on tailpipe emissions and fuel efficiency.

Yet, the promises have not had the potential to create the perfect storm for an electric vehicle mass market breakthrough. And a closer look at old market forecasts of electric vehicles clearly reveals overoptimistic penetration curves that do not match reality. Short-term change was severely overestimated. However, if technology performance improves and manages to outpace old and competing emerging technologies, electric vehicles could have a bright long-term future.

Today, the electric vehicle industry is caught in the no-man's land between yesterday's overoptimistic hype and tomorrow's game-changing performance levels. Consequently, it is very uncertain when the market will take off and there is basically no single valid market forecast to use as the foundation for a solid game plan. Further, industry players are still struggling to position themselves in the value chain and define attractive business models.

Altogether, it is clear that constant change is not only a question about

linear versus s-curve change. The electric vehicle industry is fundamentally difficult to predict and is characterised by a high level of turbulence with many interacting drivers as well as a lack of a dominating industry paradigm.

Old and new players in the electric mobility industry

The electric vehicle not only challenges the strategies of incumbent automobile manufacturers, but also opens up a market space for entirely new players such as battery manufacturers, electric utility companies, manufacturers of charging infrastructure equipment and a range of different mobility service providers.

A key to bridging the gap to a greener transportation future is the establishment of an adequate charging infrastructure that helps drivers recharge their vehicles on long-distance trips as well as an infrastructure of home chargers for recharging vehicles at night. Existing electricity infrastructure can be used for charging but for safety reasons and to increase the speed of charging, special equipment must be installed. In other words, there is an entirely new but all-important value chain role to be filled within production, installation, operation and service of the charging infrastructure. So-called electric mobility operators (EMOs) are emerging to play the role, but their approaches to create and capture value vary significantly across the globe.

CLEVER A/S was one of the first electric mobility operators on the Danish market and has served electric vehicle

owners since 2009. CLEVER is now the market leader and provides access to a public charging infrastructure either through subscription-based or pay-on-demand services as well as installs home chargers that support safe and greener charging. A key to success in early years has been the roll-out of a nationwide infrastructure needed to overcome drivers' so-called 'range anxiety' which is one of the key barriers for electric vehicle adoption. Further, CLEVER has successfully worked on influencing the political agenda and on forming relationships with key stakeholders in the industry to pave the way for electric vehicles. To bust myths, create positive awareness and increase adoption speed, CLEVER has also been running one of the largest electric vehicle test drive programs in Europe (www.testenelbil.dk).

CLEVER is owned and financially backed by five electric utilities SEAS-NVE, SE, NRGi, EnergiMidt and Energi Fyn, and when it comes to strategic choices the close links to utilities obviously can be seen as a way of colonising a new value chain position for the utilities. The investors are aligned around a long-term vision supporting green transportation and electrification of society, the desire to capture and protect market shares in a potentially attractive emerging market and to be on the forefront of the intelligent electric grid in which the batteries of electric vehicles play an important role.

However, early optimism about the promise of astonishing growth rates provided by seemingly competent industry analysts has been replaced by a more modest worldview and the once highly attractive future with high



returns is still few years away. The perception bias has – among other external factors – hit not only CLEVER but more severely key competitors such as Better Place whose investment intensive strategy is based on high-risk assumptions on winning technologies. Could CLEVER and other players have foreseen the development? Maybe! But looking back, only a few voices questioned fast penetration of the electric car at the beginning of the century. The entire electric car industry is currently struggling to gain foothold and find a profitable operating model.

Smart choices in uncertain times

Based on the uncertain future outlook of the industry, the key strategic challenge for the management team of CLEVER has been to design a business model that balances long-term establishment of a strong competitive position in an emerging market with strategic choices that minimise short-term exposure to risk and limits investments. While some competitors have chosen a big-bet strategy with potentially high upside but unsustainable risk levels,

CLEVER has crafted a strategy that will help them to compete for the long term. Digging into the business model, several strategic choices are revealed that are highly relevant to all strategic innovators and business model designers.

Gain a foothold in the niche before conquering the mass market

The optimistic market forecasts have led many industry analysts to the conviction that strategies should aim for mass market adoption and focus on high volume. However, the current

CASE - CLEVER: SMART CHOICES IN UNCERTAIN TIMES

electric cars do not match B2C mass market consumer needs. Driving distances are too short and retail prices are too high.

While getting ready for the mass market, CLEVER has chosen to focus on a few selected B2B and B2C niches in which there is a match between cars and customer needs. Further, CLEVER has understood that value propositions must be tailored to the segment-specific needs.

Current customers need total solutions supported by advanced services as opposed to market offerings optimised for low touch and high volume. In other words, CLEVER has developed a targeted approach for developing highly valuable niche offerings and will eventually use this market foothold as a stepping stone for expanding into the mainstream segments when car performance levels match mass market demands.

Invest in the ecosystem to create long-term relations and limit risk exposure

All electric mobility operators are caught in a classic chicken-and-egg dilemma. There will be no cars as long as there is no charging infrastructure – and charging infrastructure investments are unattractive as long as there are no cars. CLEVER has chosen to lead the way through building a basic nationwide infrastructure and to carry some of the initial investments needed to kick-start the industry. But on the other hand, CLEVER knows that a single company alone cannot create the market momentum needed. Therefore, a key choice has been to develop solutions for partnering with long-term investors

who share the same green transport vision. In other words, CLEVER's basic charging infrastructure will be extended and scaled up through integrating the charging stations of other infrastructure owners. In that way, the network will be highly scalable – and risks as well as investments will be shared among stakeholders in the ecosystem.

This strategy is far from the winner-takes-it-all strategies but offers a

promising way forward while risks are still high. Further, CLEVER's network-centric approach includes investing in development of long-term relations with key stakeholders such as car dealerships, public authorities, suppliers of charging equipment and technology innovators within the industry. The aim of investing in the ecosystem is clearly to be able to leverage a privileged position in the future when the industry matures and becomes more attractive.



Photo: www.clever.dk

Design, test and develop strategic options to prepare for the future

CLEVER's organisation is small and consequently lack of focus should to some extent be avoided. However, a smart choice when stakes are high is to diversify investments and build several strategic options. CLEVER, by now, knows that current market forecasts could still be incorrect. In such situations, diversifying risk is often a good idea and CLEVER will be exploring several promising options that can be scaled if the underlying assumptions turn out to be true. If the coming mass market turns out to attract strong competitors and drive down profitability in a never-ending low-cost game, CLEVER will be able to launch new market offerings that either fortify the current business model or create entirely new offerings that hold the potential to be game-changers in the industry.

Obviously, the exact nature of the strategic options is highly confidential but a common denominator is a search for premium-priced offerings and development of complex technologies that could complement the existing business model or even expand the current business model into a two-sided platform - e.g., like Google that acts as a platform for people searching the Internet and advertiser - that facilitates the exchange of certain services between several customer segments.

Plan to learn through assumption-based implementation

The classic model of building new businesses dictates that first a brilliant idea

is conceived and transformed into a detailed business plan. Then investors are convinced to pour money into the project and the business plan is diligently implemented to achieve market success. However, this approach has proved to be broken time after time and simply does not work in high-risk environments. When flux is high and there is no causal relation between big bets and big pay-offs, the best strategic choice is to plan to learn - not to learn to plan. Recognizing this takes an enormously courageous management team that has the gut to openly admit that they cannot and will not guarantee reaching the long-term strategic business goals.

The current vision sets a clear direction - but the path to success will change along the way and so will the short- and long-term goals. In high-risk environments, management teams need to constantly ask themselves what management guru Roger Martin has dubbed the most important question in strategy: "What has to hold true for this option to be a good idea?" In other words, implementation is about laying out the key assumptions that need to hold true for the chosen strategic options and enabling fast learning and adjustments of directions. CLEVER has set a clear direction and made hard choices to focus efforts but are implementing strategy with a new mindset. It is no longer a matter of executing a plan from A to Z. It is a matter of empowering cross-functional implementation teams to learn and adjust along the way. And to secure constant overview of developments and the

industry, all key assumptions guiding the strategic journey are constantly monitored and discussed when the management team frequently reviews the progress at fixed check points in which all strategic options are put on the table and assessed.

Summing up, the electric car industry turns out to be an illustrative tale of overestimating change in the short term and in some cases a tale of applying strategic management principles that are best suited for highly predictable industries. In the midst of the industry, CLEVER stands out and has found a smarter way of navigating turbulence that does not rest on the need for stability and full visibility when looking into the future. The main components of the revised strategy for CLEVER are focused value propositions for the niches, systematic ecosystem building, exploration of strategic options and an agile but firmly controlled approach to implementation.

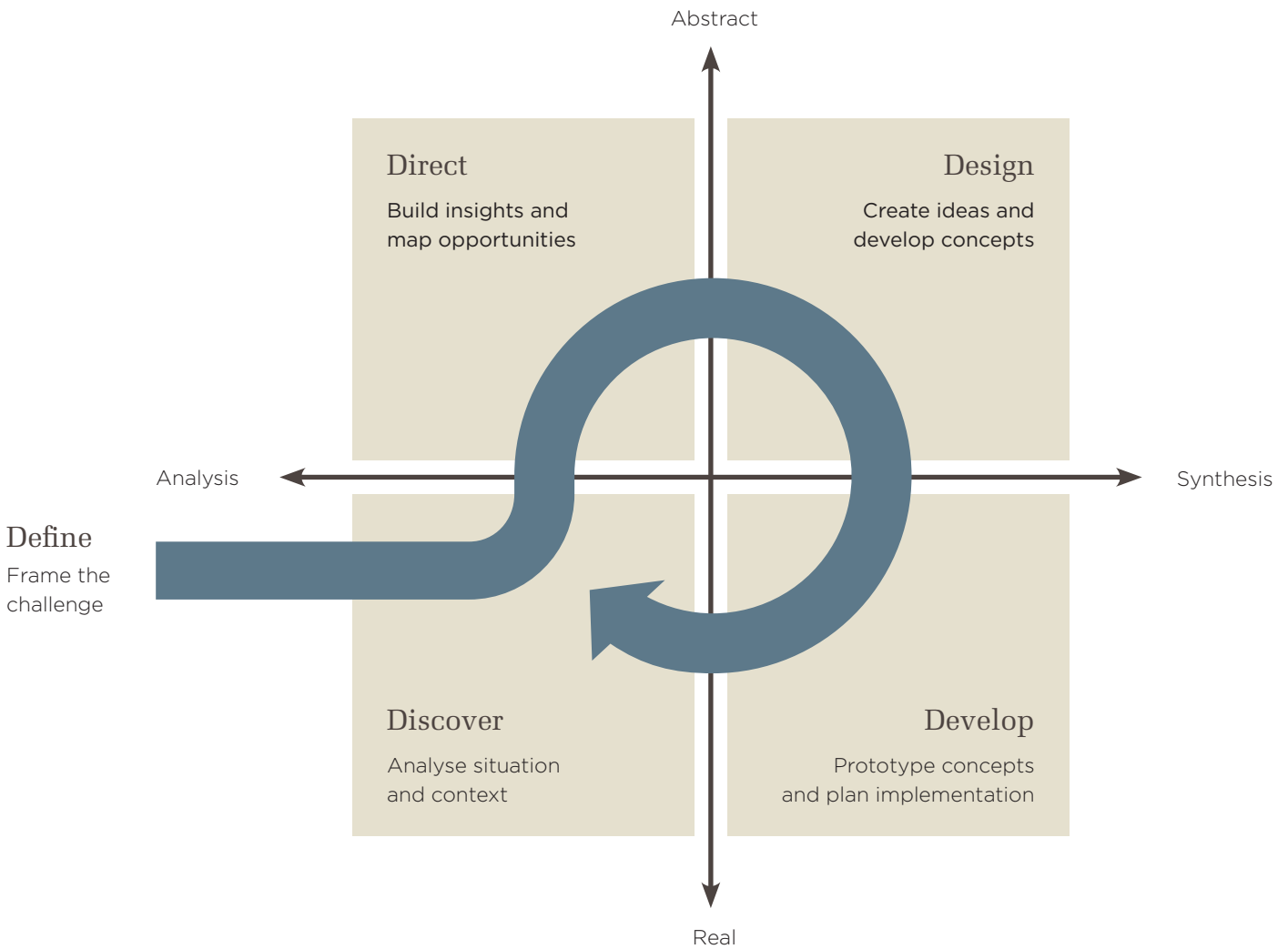
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MODEL

Discovery-driven innovation

A systematic process for designing and implementing new business models



Five guiding principles for discovery-driven innovation:

1) Enable radical collaboration and co-creation

2) Prototype and experiment to learn fast

Define

What? A clear framing of the growth challenge, definition of ambition levels and joint commitment in the growth team

Why? To align the business model innovation initiative with the growth strategy and business goals

Discover

What? Research of opportunities across context, customers, competition and capabilities

Why? Superior business concepts are formed on the basis of focused deep dives and discovery of surprising facts

Direct

What? Analysis of research findings and creation of growth opportunity maps to prioritise and direct work efforts

Why? Data needs to be filtered and interpreted into actionable insights, directions and design principles

Design

What? Creative ideation and cross-functional co-creation of new business ideas

Why? To foster creativity and identify novel approaches to driving growth

Develop

What? Iterative concept testing, business modelling and planning of learning-based implementation

Why? To reduce risks new business concepts are adjusted through several iterations and market feedback before launch

3) Focus on
customer value creation

4) Stretch goals and
challenge conventions

5) Balance creativity
and focused analysis

CASE - YOUBIO: WINNING THROUGH DISRUPTING YOURSELF

YOUBIO: Winning through disrupting yourself

By Morten Hejlesen

In the long run, all businesses must choose between self-disruption and or self-destruction. Disruptors know that new technologies and emerging business models will eventually challenge existing core businesses. Destructors get caught up in internal power plays and desperate attempts to protect an outdated core from aggressive competitors. The Danish cable operator YouSee has shown that self-disruption can be handled elegantly, and that the road to success can be paved by making timely strategic choices.

real gap to fill in customer needs? Is it a sizeable opportunity? Can we target the customers with a credible and unique value proposition? Are we able to deliver the value proposition at the right time, at the right place, at the right price and communicated in an understandable way that resonates with customers?

High failure rates could be a symptom of not fulfilling these seemingly simple criteria. Instead of focusing on truly differentiated innovations, companies

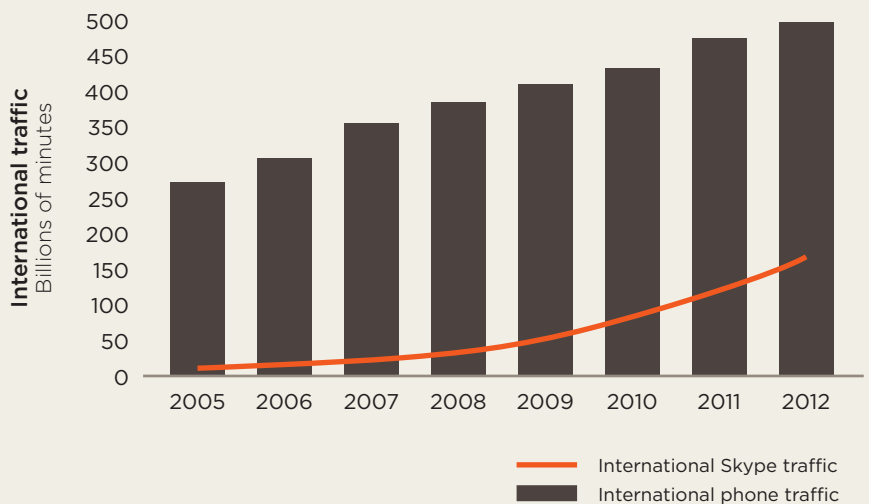
tend to end up producing more of the same thing. Me-too products that are almost similar to competing market offerings or merely tweaked to become just a little bit better and just a little bit more expensive. Pursuing this path of sustaining innovation is a natural choice for many incumbent companies to fulfil the demands of the existing customer base and to exploit existing core competences. However, while focusing on this type of sustaining innovation that typically results in increasingly complex offerings, companies open up a

Too much of a good thing?

The odds of success when launching new products are spectacularly low. Some researchers claim that the innovation failure rate is as high as 85% in dynamic industries such as fast-moving consumer goods. Thousands of new products are launched on the supermarket shelf, but only a couple of hundred may celebrate the first-year anniversary of their launch.

Obviously, the exact innovation failure rate depends heavily on how it is measured and varies significantly across industries. However, the surprisingly high failure rates should make all strategists in pursuit of new growth reflect. Have we actually identified a

International Telephone and Skype Traffic, 2005-2012



back door to market entrants offering disruptive innovations. Disruptive innovations are characterised by simplicity, convenience as well as lower prices and are served to customers that do not have an outspoken need for advanced products.

Skype's simple Internet-based voice and video communication service is an illustrative example of disruptive innovation. While research shows that international telephone traffic grew 5% in 2012 to 490 billion minutes, it is estimated that cross-border Skype-to-Skype voice and video traffic grew 44% in 2012 to 167 billion minutes. The increase of nearly 51 billion minutes is more than twice achieved by all international carriers in the world combined. In other words, massive amounts of customers seeking simple and cheap telephony solutions are turning their backs on traditional telcos. Skype is the straightforward and inexpensive choice.

Disruptive innovations such as Skype and no-frills low-cost airlines typically underperform in mainstream markets compared to established products. But on the other hand they are valued by low-end segments and in many cases, the small low-end niche markets grow big. Disruptors eventually challenge incumbents by moving up-market while competing on a fundamentally different performance trajectory.

The key to enabling disruptive innovation in established companies is found at the intersection of smart use of new technologies and intelligent business model design while having a deep understanding of the internal obstacles that might turn up along the way. Imagine knocking on the CEO's door and selling the idea of cannibalizing the

existing customer base by developing a new business model that – by the way – potentially will lead to lower profitability levels in the long run. Not exactly a dream scenario!

Disruptive business models are all around us

While disruptive innovation in established companies typically is not a part of dream scenarios, most CEOs recognise the dystopian nightmare scenario of small entrants attacking from low-end trenches eating up market shares and eventually eradicating incumbents. Disruption can be observed in almost any industry, and especially the rise of Internet-based communication technology has been a key driver in the design of many disruptive business models.

Consider the entire media industry. All value chain players involved in supplying, producing or distributing music, books, movies, newspapers, games, television and pictures have experienced the disruptive powers of the Internet and a new range of Internet-enabled devices. In 2012, there were 2.4 billion Internet users worldwide and more than 1.1 billion Internet-enabled smart-phone subscribers accounting for more than 13% of global Internet traffic. More than 119 million tablets were sold in 2012. Add to that the radically changing behavioural patterns among Internet users with more than 1 billion monthly active Facebook users and over 4 billion hours of video being watched each month on YouTube.

The story about the music industry

and new business models like Apple's iTunes and music streaming services such as Spotify, Wimp and TDC Play is well known. Within video rental services, the rise and fall of Blockbuster is the tale of poor strategic planning in the midst of disruptive market entrants. At its peak in 2004, Blockbuster had more than 9,000 stores in the US but is now operating less than 500 stores and is continuously shutting down stores worldwide due to the rise of cheap and convenient over-the-top online video services such as Netflix, Hulu, HBO and Amazon Instant Video.



As a matter of fact, Netflix users watched more than a 1 billion hours of video in June 2012. Moreover, the on-demand video services are disrupting traditional flow-tv broadcasters and cable television services thus paving the way for a shift in consumer behaviour toward services that are streamed online. All of the mentioned video services are perfect examples of low-end disruptions providing just “good enough” content to their customers at low prices.

CASE - YOUBIO: WINNING THROUGH DISRUPTING YOURSELF

Traditional cable operators have been competing on “adding value” to existing offerings through moving up-market by developing advanced video-on-demand offerings, multi-device support as well as advanced household integration services. All new entrants have chosen a different performance trajectory and are based on low-margin business models that seem quite unattractive to incumbent companies. Entrants have quite simply changed the rules of the game.

Taking a closer look at the Danish market, 2012 was the year of video streaming service premieres. Netflix, HBO Nordic, ViaPlay and YouBio were launched to compete with traditional cable operators and existing online services. Typically, new providers are offering access to a selection of movies, TV shows and different sorts of unique content as well as attracting customers through free trial periods. Netflix tried to capture customers producing its own TV show, House of Cards, YouBio is combining subscription-based access to content with pay-per-use premiere movies and ViaPlay is trying to attract customers through offering access to proprietary sports content.

While market shares are still changing on a daily basis, a survey from 2013 shows that Netflix was used by 16% of the population during the last 6 months. YouBio is placed second used by 11% of the population. Altogether, 29.7% of the Danish households have at least one streaming service subscription and more than 31% of the households are using the service at least once a day.

Disrupt yourself or get disrupted

While the entry of global players such as HBO and Netflix is opening up the competitive space, the launch of YouBio proves to be a highly interesting case in point when it comes to understanding the dynamics of disruptive innovation from within established companies.

YouSee, the largest cable operator in Denmark and a subsidiary of TDC, launched the YouBio business model. YouSee currently has 1.2 million cable TV customers in Denmark, and is the country's second largest provider of broadband services. Revenues reached 4,572 mDKK in 2012 and were up 7.3% compared to 2011. The 2012 gross profit margin was 58% making YouSee a tremendously profitable company. But the disruptive forces of new global and local streaming services have pushed YouSee to make hard choices and to compete for the long run. While

flow-tv still is expected to attract a sizeable customer base, streaming services will no doubt severely challenge traditional premium cable packages. The full impact of new players is yet to be seen, but the long-term trend is evident.

In retrospect, it seems straightforward that YouSee had to open up for potentially cannibalizing the company's own base of premium cable customers. But accepting the slow decline of the traditional business model has led to a number of tough choices and has stretched the competence base of the organisation. Four key success factors that have helped YouSee in the transformation can be observed:

Set a long-term vision to avoid sticky old business models

To introduce a new disruptive business model from within requires dedication to compete for the long term and strong leadership unity supporting a departure from old ways of working. One might



argue that YouSee had no other choice, but consider the hall of fame of great disrupted companies such as Kodak, Borders and Blockbuster. If there is no long-term vision but only a strict short-term focus on milking existing businesses, disruptors will eventually overtake your business.

YouSee's vision to be the preferred provider of TV, movies, music and communication to Danish households sets the bar higher and supports visionary leadership choices. Add to that, a fundamentally entrepreneurial working culture that might seem a bit loose here and there but most definitely supports innovative experimentation and a high level of employee engagement.

Don't get ahead of the s-curve and watch competitive moves closely

Timing is everything when it comes to perfecting a market entry. YouTube was founded in 2005 and online streaming services have been around for many years. The management team of YouSee has watched competitors such as Netflix closely for a long time and back in 2008 the team decided to start moving from the traditional world of cables into the world of Internet-based technologies. However, YouBio was not launched before 2012 and it shows that disruptive business models must be timed perfectly with the threat of competitive entries, broad dissemination of supporting technologies such as high-speed broadband connections and mobile devices and a sufficient critical mass of customers willing to switch or test new solutions.

If YouSee had entered the market

some years earlier, the net effect could have been a massive cash burn due to immature technologies and lack of a sizeable customer base. Looking back, YouSee executives would have preferred a slightly earlier entry to avoid the market dominance of Netflix. But being a fast follower is far better than getting too early into the game.

Learn to compete through making disruptive innovation an evolutionary process

On the surface, disruptive innovation seems to be all about overnight revolutions that alter the rules of the game in a very short period. As described above, YouSee purposefully chose to start learning and building new competences back in 2008. Key steps included to build competences for streaming existing FlowTV channels over the top through on the Web, to build competences for handling different devices as well as to build a new business model for online rental movies. In that sense, disruptive innovation for YouSee is less revolutionary and more evolutionary. Thus, the final strategic choice to launch YouBio could be taken with some confidence. Sticking to the original core would have made YouBio a highly risky bet but clever management choices have systematically reduced risk levels through a slow but safe step-by-step approach.

Leverage existing complementary assets and capabilities to commercialise successfully

The story about the success of YouBio is not a story about innovative new technologies that have been protected and are almost inimitable for other

companies. While core technologies are new to YouSee, they certainly are not new to the world. More precisely, the success is built on leveraging a range of existing assets and capabilities. Even though competitors enter the market space, they will have a hard time copying all the complementary assets. These assets include the strong YouSee brand, an extremely strong customer base of almost 45% of all Danish households and strong relations to content providers such as movie distributors and existing broadcasters. The strong position in the Danish market built around complementary assets also explains why YouSee has no international expansion plans. The core technology is relatively simple and needs strong supporting assets to survive competition and to win customers.

Many businesses do not survive big technology shifts and get caught up in internal resistance to change. As a contrast, YouSee has proactively made important strategic choices that have supported the successful launch of a new disruptive business model. In a world of near-constant disruptions, the art of disrupting yourself is a rare but highly needed competence that must be handled carefully. Sticking to core competences in a rigid way and clinging to old business models on the other hand will most likely lead to self-destruction in the long run.

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CASE - DAILY MAERSK: OPENING UP A NEW ROUTE TO THE HIGH END

DAILY MAERSK: Opening up a new route to the high end

By Thomas Børve & Morten Hejlesen

Maersk launched the Daily Maersk service in 2011 to change the rules of the game in the highly conservative shipping industry. The new business model was designed to tackle three fundamental industry challenges: Unreliability, environmental impact and complex services. As a consequence, Maersk Line has turned challenges into opportunities and succeeded in opening up a high-end market segment demanding high reliability, fast delivery and high consistency.

Rethink the existing market through introducing new competitive factors

Arguably, one of the most impressive strategic moves a company can make is to rethink the existing market and fundamentally challenge competitors on a new set of competitive factors. When Apple launched the iPhone it was a slap in the face to an industry stuck within dominant logics of traditional mobile phone design, user interfaces and revenue models. When Nestle introduced its simple and convenient Nespresso coffee brewing solution, they shook up the existing ways of preparing a premium cup of coffee – no more need for highly complicated manual drills to brew a quality shot of espresso.

Both iPhone and the Nespresso machine are sustaining innovations that have altered the rules of the game by translating deep customer understanding into unique and differentiated solutions for the existing customer base. Neither has dramatically expanded the market. More precisely, both market offerings have taken the companies up-market by targeting the latent needs of highly profitable customer segments that were willing to accept remarkably higher price points than the industry average. Add to that, the intelligent razor-and-blades logic underlying both business models with constantly recurring revenues through sales of mobile phone apps and coffee pods.

The key to seizing the high end is customer centricity. While some companies are still focusing on selling great products and services with fantastic features, customer-centric companies take an outside-in perspective and focus on providing unique benefits aligned with segment-specific needs and wants. Further, the best companies are able to document and prove the value created for a specific customer in return for the customer's associated payment (see figure 1 on the next page).

In some industries, the validity of the customer value proposition can be documented in monetary terms while

other industries need to prove measurable value creation on a broader range of parameters that are key to customer satisfaction – e.g., sustainability, speed, convenience, reliability, flexibility. Oftentimes, the unique features and new competitive factors that create the basis for differentiation are to be found in communication, sales approach or distribution network and not the product itself. Customer benefits outdo technical features.

A giant challenges industry conservatism

One might argue that big companies seldom act as nimble and agile as a speedboat but popular belief does not always turn out to hold true. As a matter of fact, one of the biggest changes in the shipping industry has been introduced by one of the industry giants, Maersk Line, in 2011.

The shipping industry plays a key role in the global economy. It has grown and changed dramatically in the last thirty years. Globalisation, regulatory changes and the impact of economic growth have resulted in increased efficiencies, increased merger activity, and increased growth. Since 1970 international cargo has more than trebled and the industry today is facing increased competition, dropping demand, price

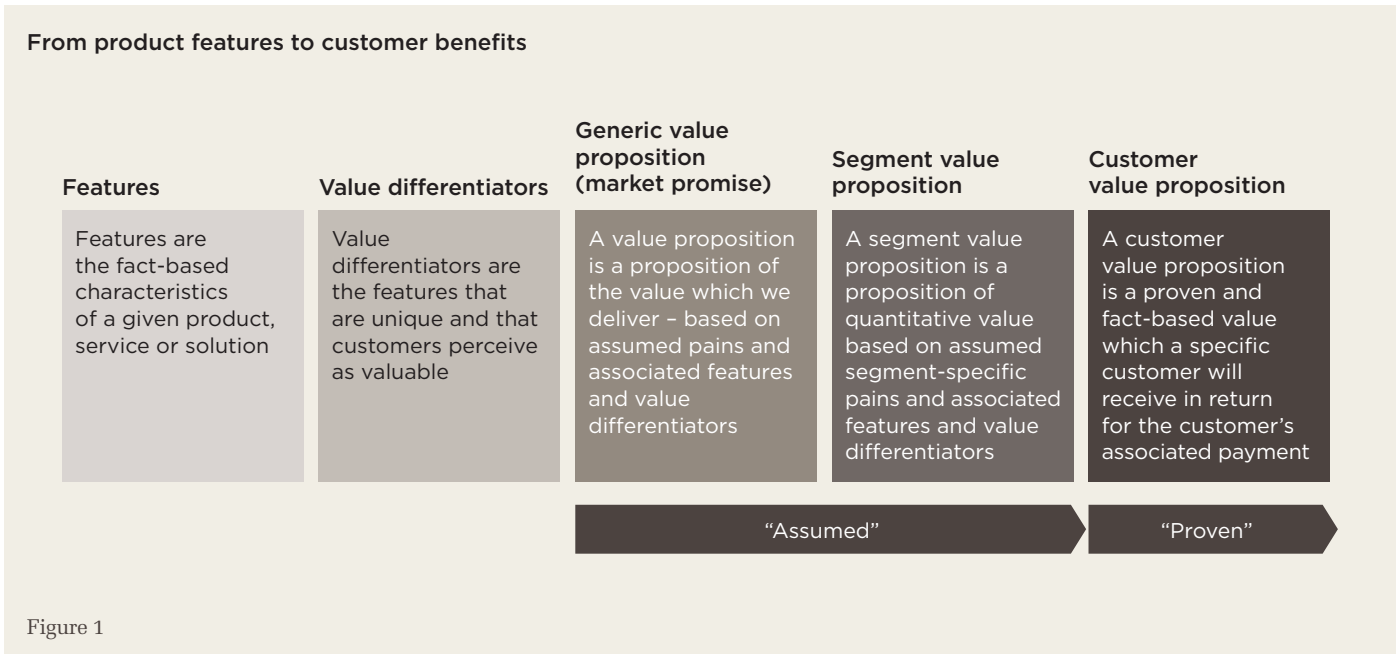


Figure 1

pressure and ever more demanding customers. In order to meet these demands, shipping firms make large investments in rolling and floating stock, and funding these investments is crucial to sustaining growth (see figure 2).

One of the more recent investments comes from Maersk Line, the world's largest container shipping company with 25.000 employees, 600 vessels and more 300 offices around the globe. The investment is called Daily

Maersk and is basically a service aimed at reducing the inventory of the shipper through increased reliability, frequency and consistency.

Prior to Daily Maersk, on average only 1 in 2 containers arrived on time. Customers with explicit needs for having goods delivered on time had compensated for the lack of reliability by building expensive safety stocks at critical locations. This resulted in a negative impact on the customers' supply chain efficiency, impacting cash flows and profitability.

In the spring of 2010, Maersk Line interviewed selected customers to gain more insight into the needs of customers. Maersk Line worked from a hypothesis of being able to perform daily shipments and deliver 100% reliability on the Asia-Europe trade line based on a redundant network. Analysis showed



Figure 2

CASE - DAILY MAERSK: OPENING UP A NEW ROUTE TO THE HIGH END



Photo: www.maerskpress.com

that daily shipments, increased consistency and reliability would mean significant inventory reductions and up to 500 USD saved per container for customers. In the beginning, most customers were sceptical towards the new service reliability of Daily Maersk but it quickly proved shippers that it will be able to remove shipping buffers that had been built in to the lead time.

With Daily Maersk, customers could suddenly have absolute confidence in the date containers would be available for delivery, improving inbound planning and also providing flexibility if they arrived early and cargo was required urgently. The collaborative approach that the Maersk Line sales team uses when selling Daily Maersk is quite unique for a shipping line. The sales team seeks to understand and map the supply chain of their customers and this allows Maersk Line to gain a better understanding of customer business processes and further opportunity to drive value and reliability for our inbound shipments.

Daily Maersk was designed and launched in the summer of 2011 and has proven quite successful. Although "absolute reliability" was not achieved (98%), 76% of 175 surveyed customers acknowledged the benefits from Daily Maersk and found that their transportation chain had become more efficient. 60% of surveyed customers had directly saved on logistics costs.

Maersk Line firmly believes that it has changed and as a direct result customers are seeing their supply chains become more efficient. In quite a few cases Maersk Line has been able to demonstrate the value in terms of US dollars

as a direct effect of using Daily Maersk. Further, shipping with Daily Maersk saves 13% CO2 emissions per TEU moved compared to the industry average on the Asia-Europe trade.

Unlocking the value of customer centricity

To launch the Daily Maersk business model, Maersk has taken a customer-centric path to unlock new potentials of the existing market. Some of the key success factors that can be observed are:

Implement a culture of customer centricity and build on deep customer insights

Maersk Line has worked for many years to build a foundation of customer centricity initially within the framework of the existing business model. In 2009, an initiative to improve customer experience was launched building on in-depth customer research revealing several unknown customer pain points. Reliability was one of the key issues observed. Consequently, Maersk Line introduced "proactive notifications" in order to support customers who make changes in logistic operations or inventory in case of delays. The initiative paved the way for an emotionally informed view of the customer. When designing Daily Maersk, deep customer insights were used as the foundation for business model design. This included understanding the details of the customers' supply chain processes and mapping the customer's journey to assess interactions with Maersk and spot the real pains and needs to be addressed. Maersk continues to challenge industry traditions and has secured an astounding 873,838 likes on Facebook and a comprehensive presence on

more than 8 other social media platforms to listen and talk to customers.

Make the customer value proposition tangible and prove value creation

Different pain killers can relieve a customer pain. While "proactive notifications" tried to dampen the pain of delays, Daily Maersk has addressed the root cause and is dramatically reducing the risk of delays completely. In other words, customer value creation has been boosted. For Maersk, it has been key to both position and differentiate Daily Maersk in a convincing and trustworthy way. To really convince customers, Maersk does not rely on fancy marketing campaigns alone but on hard facts. All customers are offered customized and industry-specific value propositions. The value creation potential is initially assumed, but through customer interactions it is verified, proved and calculated so that benefits in monetary terms are clearly outlined for customers. Further, Maersk makes sure to tailor value messages to different stakeholders within the customer's organisation.

Changing the way of selling and building the right competences

Traditionally, transportation services have been thought of as simple transactional offerings resulting in fairly low-level tactical sales dialogues with customers. Daily Maersk has changed that by introducing proven value propositions that offer to improve the performance of the customer's supply chain. To move from tactical talks to strategic dialogues about supply chain performance improvements required a new business model and also building new leadership, sales and marketing capabilities at Maersk. Therefore, Maersk

CASE - DAILY MAERSK: OPENING UP A NEW ROUTE TO THE HIGH END



Photo: www.maerskpress.com

is continuously working on installing a stronger commercial mindset in the organisation. Daily Maersk is based on getting early into the buying cycle and addressing pains higher up in the customer organisation. To help Maersk succeed, capabilities and processes for engaging Maersk executives in the sales cycle have been built and new value-based ways of working with sales opportunities have been developed to secure aligning the new business model with sales force capabilities.

Combine thinking big and bold with a prototyping mindset

While differentiation can open up a new high-end segment, shipping is fundamentally a volume operations business. To succeed with a new business model in this well-established industry, small bets are simply not a sustainable

option. Maersk has wisely chosen to invest heavily, to decisively try to shape the industry into a new direction and to focus efforts on one concept. In highly uncertain and immature industries, this strategy would most likely have failed. E.g., the current cash burn and expected fall of Better Place in the electric vehicle industry proves this point. In a mature industry, the introduction of a new high-end business model needs to be powerful and supported by a strong financial backbone. Maersk has done all of this very well and marketing and public relations efforts deserve respect. However, behind the scenes the Daily Maersk concept was introduced five months before launch to validate the concept and fine-tune performance. In other words, thinking big when launching went hand in hand with a learning and prototyping mindset.

At one end of the business model innovation continuum, you will find agile start-ups appearing out of the blue ready to disrupt mature industries from the low end. At the other end, you will find big and powerful players like Maersk Line that moves up-market to tap the potential of underserved and highly demanding customers. Daily Maersk is a brilliant case in point that business model innovation at its core is all about customer centricity and finding the best way of fulfilling both articulated and latent customer needs.

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