BUSINESS MODELS
BUSINESS STRATEGY & INNOVATION

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GENERAL OBJECTIVES OF THE SUBJECT
At the end of the course, Individuals will examine the principles of Creativity & Innovation apply them within the company's needs. You will critically reflect the Business Models, Business Strategy & Innovation and their behavior within the company *and* their impact in the development of this course.

10. BUSINESS MODELS, BUSINESS STRATEGY & INNOVATION

10.1 Business Models, Strategy & Innovation
10.2 The Pitfalls of Strategy
10.3 Equilibrium & Perfect Competition
10.4 Examples of Business Models
10.5 Traditional Industries
10.6 The Information/Internet Industries
10.7 Business Models as Innovation

10.1 Business Models, Strategy & Innovation

A business model articulates the logic and provides data and other evidence that demonstrates how a business creates and delivers value to customers. It also outlines the architecture of revenues, costs, and profits associated with the business enterprise delivering that value.

The issues related to good business model design are all interrelated, and lie at the core of the fundamental question asked by business strategists how does one build a sustainable competitive advantage and turn a super normal profit? In short, a business model defines how the enterprise creates and delivers value to customers, and then converts payments received to profits. To profit from innovation, business pioneers need to excel not only at product innovation but also at business model design, understanding business design options as well as customer needs and technological trajectories.

Developing a successful business model is insufficient to assure competitive advantage as imitation is often easy: a differentiated (and hard to imitate) yet effective and efficient business model is more likely to yield profits. Business model innovation can itself be a pathway to competitive advantage if the model is sufficiently differentiated and hard to replicate for incumbents and new entrants alike.

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In essence, a business model [is] a conceptual, rather than financial, model of a business. In essence, a business model embodies nothing less than the organizational and financial ***'architecture'*** of a business. It is not a spread sheet or computer model, although a business model might well become embedded in a business plan and in income statements and cash flow projections. But, clearly, the notion refers in the first instance to a conceptual, rather than a financial, model of a business.

It makes implicit assumptions about customers, the behavior of revenues and costs, the changing nature of user needs, and likely competitor responses. It outlines the business logic required to earn a profit (if one is available to be earned) and, once adopted, defines the way the enterprise ***'goes to market'***. But it is not quite the same as a strategy: the distinction and the relationship between the two will be discussed later.

Despite lineage going back to when societies began engaging in barter exchange, business models have only been explicitly catapulted into public consciousness during the last decade or so. Driving factors include the emerging knowledge economy, the growth of the Internet and e-commerce, the outsourcing and offshoring of many business activities, and the restructuring of the financial services industry around the world.

In particular, the ways in which companies make money nowadays is different from the industrial era, where scale was so important and the capturing value thesis was relatively **simple *i.e. the enterprise simply packed its technology and intellectual property into a product which it sold, either as a discreet item or as a bundled package.*** The existence of electronic computer's that allow low cost financial statement modeling has facilitated the exploration of alternative assumptions about revenues and costs.

Additional impetus has come from the growth of the Internet, which has raise anew, and in a transparent way, fundamental questions about how businesses deliver value to the customer, and how they can capture value from delivering new information services that users often expect to receive without charge. It has allowed individuals and businesses easy access to vast amounts of data and information, and customer power has increased as comparison shopping has been made easier. In some industries, such as the recording industry, Internet enabled digital downloads compete with established channels ***(such as physical product sales)*** and, partly because of the ubiquity of illegal digital downloading, the music recording industry is being challenged to completely re-think its business models.

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The Internet is not just a source of easy access to digital data; it is also a new channel of distribution and for piracy which clearly makes capturing value from Internet transactions and flows difficult for recording companies, performers and songwriters alike. More generally, the Internet is causing many 'bricks and mortar' companies to rethink their distribution strategies if not their whole business models.

Notwithstanding how the Internet has devastated the business models of industries like music recording and news, internet companies themselves have struggled to create viable business models. Indeed, during the dot.com boom and bust of 1998 -2001, many new companies with zero or negative profits ***(and unprecedentedly low revenues)*** sought financial capital from the public markets, which at least for a short while accommodated them. Promoters managed to persuade investors that traditional revenue and profitability models no longer applied and that the dot.com companies would **(eventually)** figure out **(highly)** profitable business models. Few have, causing one commentator to remark that ***'the demise of a popular but unsustainable business model now seems inevitable'***.

No matter what the sector, there are criteria that enable one to determine whether or not one has designed a good business model. A good business model yields value propositions that are compelling to customers, achieves advantageous cost and risk structures, and enables significant value capture by the business that generates and delivers products and services. ***'Designing'*** a business correctly, and figuring out, then implementing e and then refining e commercially viable architectures for revenues and for costs are critical to enterprise success.

It is essential when the enterprise is first created; but keeping the model viable is also likely to be a continuing task. Superior technology and products, excellent people, and good governance and leadership are unlikely to produce sustainable profitability if business model configuration is not properly adapted to the competitive environment. Some preliminary criteria for business model design are suggested throughout this article, and summarized in a later section. The concept of a business model has no established theoretical grounding in economics or in business studies.

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10.2 Business Models the Theoretical Foundation

The concept of a business model lacks theoretical grounding in economics or in business studies. Quite simply there is no established place in economic theory for business models; and there is not a single scientific paper in the mainstream economics journals that analyses or discusses business models in the sense they are defined here. The absence of consideration of business models in economic theory probably stems from the ubiquity of theoretical constructs that have markets solving the problems that in the real world business models are created to solve.

Economic theory implicitly assumes that trades take place around tangible products: intangibles are, at best, an afterthought. In standard approaches to competitive markets, the problem of capturing value is quite simply assumed away: inventions are often assumed to create value naturally and, enjoying protection of iron-clad patents, firms can capture value by simply selling output in established markets, which are assumed to exist for all products and inventions.

Thus there are no puzzles about how to design a business e it is simply assumed that if value is delivered, customers will always pay for it. Putting so called **'public goods'** and **'free rider'** issues to one side, business models are quite simply redundant because producers/suppliers can create and capture value simply through disposing their output at competitive market prices. Such models clearly assume away the essential business design issues that are the subject of this article.

In short, figuring out business models for a new or existing product or business is an unnecessary step in textbook economics, where it is not uncommon to work with theoretical constructs which assume fully developed spot and forward markets, strong property rights, the costless transfer of information, perfect arbitrage, and no innovation. In mainstream approaches, there is simply no need to worry about the value proposition to the customer, or the architecture of revenues and costs, or about mechanisms to capture value. Customers will buy if the price is less that the utility yielded; producers will supply if price is at or above all costs including a return to capital the price system resolves everything and business design issues simply don't arise.

But general equilibrium models, with (one-sided) markets and perfect competition are a caricature of the real world. Intangible products are in fact ubiquitous, two-sided markets are common, and customers don't just want products; they want solutions to their perceived needs. In some cases, markets may not even exist, so entrepreneurs may have

to build organizations in order to perform activities for which markets are not yet ready. Accordingly, in the real world, entrepreneurs and managers must give close consideration to the design of business models and even to building businesses to execute transactions which cannot yet be performed in the market.

10.3 Equilibrium & Perfect Competition

Equilibrium and perfect competition are a caricature of the real world. Customers don't just want products; they want solutions to their perceived needs. It's also true that business models have no place within the theoretical constructs of planned economies (just as in a perfectly competitive economy). While central planners do need to understand the stages in the production system, in a supply driven system where consumers merely get what the system produces business models simply aren't necessary. There is no problem associated with producers capturing value because value doesn't even have to be captured; the state decides what and how to produce, and how to pay for it all.

While business models have no place in economic theory, they likewise lack an acceptable place in organizational and strategic studies, and in marketing science. However, there has been some limited discussion and research on new organizational forms. ***Williamson, for instance, recognizes that 'the 1840s marked the beginning of a great wave of organizational change that has brought us the modern corporation'***. As discussed earlier, new organizational forms can be a component of a business model; but organizational forms are not business models. Clearly, the study of business models is an interdisciplinary topic which has been neglected despite their obvious importance it lacks an intellectual home in the social sciences or business studies. This article aims to help remedy this deficiency.

10.4 Examples of Business Models

Business models are necessary features of market economies where there is consumer choice, transaction costs, and heterogeneity amongst consumers and producers, and competition. Profit seeking firms in competitive environments will endeavor to meet variegated consumer wants through the constant invention and presentation to the consumer of new value propositions. Business models are often necessitated by technological innovation which creates both the need to bring discoveries to market and the opportunity to satisfy unrequited customer needs.

At the same time, as indicated earlier, new business models can themselves represent a form of innovation. There are a plethora of business model possibilities: some will be much better adapted to customer needs and business environments than others. ***Selecting, adjusting and/or improving business models are a complex art***.

Good designs are likely to be highly situational, and the design process is likely to involve iterative processes. New business models can both facilitate and represent innovation e as history demonstrates.

10.5 Traditional Industries

A striking early American example of 19th century business model innovation was Swift and Company's ***'reengineering'*** of the meat packing industry. Prior to the 1870s, cattle were shipped live by rail from the Midwestern stockyard centers like Omaha, Kansas City and Chicago to East Coast markets where the animals were slaughtered and the meat sold by local butchers.

Gustavus Swift sensed that if the cattle could be slaughtered in the Midwest and shipped already dressed to distant markets in refrigerated freight cars, great economies in ***'production'*** centralization and transportation could be achieved, along with an improvement in the quality of the final product. Swift's new business model quickly displaced business models involving a network of shippers, East Coast butchers and the railroads. His biggest challenge was the absence of refrigerated warehouses to store the beef near point of sale, which were not part of the existing distribution system.

Swift set about creating a nationwide web of refrigerated facilities, often in partnerships with local jobbers. 'Once Swift overcame the initial consumer resistance to meat slaughtered days before in distant places, his products found a booming market because they were as good as freshly butchered meats and were substantially cheaper e Swift's success quickly attracted imitators by the 1890s, men like Phillip Armour had followed on Swift's heels'.

A more recent example is containerization. Malcolm McLean, owner of a large U.S. trucking company, was convinced that conventional shipping was highly inefficient because shipping companies typically broke bulk at dockside, and cargo ships spent most of their time in port being loaded or unloaded. In 1955 he hired an engineer to design a

road trailer body that could be detached from its chassis and stacked on ships. McLean acquired a small steamship company, renamed it Sea-Land Industries (it eventually became absorbed into the Maersk Line). He developed steel frames to hold the containers, first on the top decks of tankers, and then on the world's first specialized cellular containership, the Gateway City, launched in 1957.

To promote the standardization necessary to develop the industry, McLean made Sea-Land's patents available royalty free to the International Standards Organization (ISO). Sea-Land began service on North Atlantic routes in 1966. When R. J. Reynolds bought Sea-Land for $530 million in 1969, McLean received $160M for his share and retired.

Another U. S. example of successful business model innovation is Southwest Airlines, where the founder surmised that most customers wanted direct flights, low costs, reliability and good customer service, but didn't need ***'frills'***. To achieve these goals, Southwest eschews the hub-and spoke model associated with alliances, nor does it allow interlining of passengers and baggage, or sell tickets through travel agencies all sales are direct. Aircraft are standardized on the Boeing 737, allowing greater efficiency and operating flexibility. Southwest's business model which was quite distinct from those of the major carriers followed elements of a discount airline model first pioneered in the U.K. by Freddie Laker. Although Laker Airways eventually failed as did other early followers in the U.S. such as People's Express Easy Jet has implemented a similar model in Europe, so far successfully.

The ***'razor-razor blade model'*** is another classic (and quite generic) case of a well-known business revenue model (which is just one component of a business model), which involves pricing razors inexpensively, but aggressively marking-up the consumables (razor blades). Jet engines for commercial aircraft are priced the same way manufacturers know that engines are long lived, and maintenance and parts is where Rolls Royce, GE, Pratt & Whitney and others make their money.

So engines are sold relatively inexpensively but parts (and service) involve considerable mark-ups and represent an income stream that may continue for decades. The 'razor-razor blade model' is a classic business revenue model ... jet engines for commercial aircraft are priced the same way.

In the sports apparel business, sponsorship is a key component of today's business models. Nike, Adidas, Reebok, Canterbury, and others sponsor football and rugby clubs

and teams, providing kit and sponsorship dollars as well as royalties streams from the sale of replica products. After building brand on the field, these companies endeavor to leverage their brand into off-field products, often with considerable success. On-field sponsorship is almost a sine qua non for brand authenticity.

However, this model is readily imitated, and its viability for any particular apparel company depends on the sponsor's particular abilities to leverage on-field sponsorships into off-field sales. Relationships with clubs, teams, and with team managers and club owners become important in the mix.

Performing artists have several business models they can employ. Their revenue sources might include live productions, movies, sale of physical CDs through stores or online music sales through virtual stores such Apple's iTunes. Stars might decide to use concerts as their main revenue generator, or to spend less time performing and more in the recording studio, using concerts primarily to stimulate sales of recordings.

In earlier days when piracy was limited, the Beatles demonstrated that stars could quit live performances and continue to do well on royalties from the sale of recorded music. Then, in the 80s and 90s, the music video became an important source of revenue, and more recently, ***'soundtracks'*** to video games have become a significant source of revenue for some artists. In short, multiple revenue streams are available, and the particular revenue model employed can depend on the marketplace, on a star's contextual talents and preferences, and on the quality of copyright protection afforded to recorded music.

Business models must morph over time as changing markets, technologies and legal structures dictate and/or allow. For instance, the business model that U.S. investment banks had employed for almost 20 years largely disappeared in 2008. From at least the 1950s through the 1990s, the investment banking function usually generated most of the banks' revenues. However, for Goldman Sachs (arguably the industry leader) that figure had fallen to 16% by 2007, while revenues from trading and principal investment had grown to 68%, leading it and other investment banks to morph their business models into something quite different and more risky than traditional investment banking. Subprime mortgages and other problematic assets became securitized and injected into the system, encouraged by Freddie and Fannie (and by Congress) with results that subsequently hit the headlines.

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In September 2008, Goldman Sachs and Morgan Stanley (the last two independent investment banks left standing in the U.S. after the takeover of Bear Sterns by JP Morgan Chase, the bankruptcy of Lehman Brothers, and Merrill Lynch's absorption by Bank of America) converted themselves into federally chartered commercial banks. By accepting government regulation by the FDIC, Goldman Sachs and Morgan Stanley will need to maintain lower leverage, and accept lower risk and lower returns. In their need for a source of stable funds, both have (albeit reluctantly) made significant business model changes in short, they have been obliged to abandon their old models entirely.

10.6 The Information/Internet Industries

As noted earlier, the information industries have always raised challenging business model issues because information is often difficult to price, and consumers have many ways to obtain certain types without paying. Figuring out how to earn revenues (i.e. capture value) from the provision of information to users/customers is a key (but not the only) element of business model design in the information sector. The rules for strategic engagement promulgated by Shapiro and Varian are core elements of strategy in the information services sector.

As traditional information providers, newspapers have employed a revenue model for decades in which the paper is sold quite inexpensively (usually at a nominal level, insufficient to cover costs), while publishers looked to advertising revenue to cover remaining costs plus provide a profit. In recent years, this business model has been undermined by websites like eBay and Craigslist that have siphoned off advertising revenues from job and real estate listings and classified ads: many newspapers have gone out of business.

The Internet has enabled traditional industries like DVD rentals to adopt a more modern on-line posture. Netflix (http://www.netflix.com) enables customers to order DVDs on-line and have expedited delivery by the U.S. Mail as a more convenient alternative to going to a rental facility, renting the DVD, and returning it several days later. Monthly fees are what sustain Netflix.

The emergence of the Internet, Napster and its clones has obliged music recording companies to rethink their business models, which they have been doing along several fronts. On one front, they are moving to greatly increase the royalty rate for Internet 'broadcast' of their content, while on another, they are moving to capture advertising revenues associated with that content. For instance, MySpace Music

(http://music.myspace.com) enables users to listen to songs from Universal, Sony BMG and Warner Music, and provides free advertising-supported streaming, with easy access to Amazon.com for music purchases. Another example is the Nokia *'Comes with Music'* (CWM) handset that comes with **'free'**, unlimited music downloads for a year, with Nokia passing on a fee to the recording companies.

A recent example of an Internet business model is Flickr (www.flickr.com), which has been des 'a poster child for Web 2.0 [offering] users away to share photos easily'. Flickr's friendly and easy-to-use web interface and its free photo management and storage service are noted as great examples of a Web 2.0 ***'freemium'*** (free and premium) business model, characterized by Fred Wilson as: 'Give your service away for free, possibly ad supported but maybe not, acquire a lot of customers very efficiently through word of mouth, referral networks, organic search marketing, etc., then offer premium priced value added services or an enhanced version of your service to your customer base'.

The Flickr business model (which actually evolved from gaming to on-line photo sharing, harnessing user feedback generated through blogs) essentially gives away the services that amateur photographers want most: photo sharing, on-line storage, indexing and tagging. Shuen notes that low cost on-line distribution and marketing and investment are associated with ***'revenue from multiple streams, including value-added premium services and customer acquisition.'*** Flickr's multiple revenue stream business model involves collecting subscription fees, charging advertisers for contextual advertising, and receiving sponsorship and revenue-sharing fees from partnerships with retail chains and complementary photo service companies. Yahoo bought Flickr in March 2005 for tens of millions of dollars.

Companies can adopt business models [e.g. Freemium or multiple revenue stream models] pioneered in one space into another. A business model pioneered by one company in one space may be adopted by another company in another space. The 'freemium' model has been adopted by Adobe (for its PDF reader), Skype and MySpace, while Outshouts Inc. (www.outshouts.com) has applied Flickr's multiple revenue streams model to on-line Web videos, allowing users to personalize and disseminate videos for business or consumer purposes. While it is common with Internet start-ups, the multiple revenue stream approach is by no means new.

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Besides theatrical releases and looking to exploit an obvious extra revenue stream the sequel movie studios have long sought revenues from 'ancillary' licensing (toys, T-shirts, lunchboxes, backpacks), and more recently from video games and soundtracks.

Freemium business models are also deployed by a large number of software companies (such as Linux, Firefox, and Apache) who operate in the open source marketplace. The standard form (or 'kernel') of the software is licensed under an open source license and then a premium version with additional features and/or associated services is made available under commercial license terms.

One theory is that **'vendors'** get customers (often, and ideally with the IT organization bypassing Procurement Departments altogether because, after all, the software is 'free') hooked on the free product, and then subsequently convert them into paying customers through the sale of complementary software and/or service. However, conversion rates to paying customers have been poor, and it's not clear the model works.

The discussion so far has focused mainly on the impact of technology on value and its delivery. However technology can have an equally transformative effect on the cost side of the business model. New'cloud-based' computing models, for example, remove the need for small companies to invest upfront in expensive services instead they can buy server capacity in small slices, as needed, according to their monthly needs. The size of such slices continues to shrink e services such as Amazon's EC2, for example, even allow customers to buy virtual server capacity for a single transaction, measured in milliseconds.

This kind of innovation transforms previous 'fixed plus variable' cost models into entirely variable cost models, greatly improving efficiency and reducing early-stage capital requirements. Business models, strategy and sustainable competitive advantage a business model articulates the logic, the data, and other evidence that support a value proposition for the customer, and a viable structure of revenues and costs for the enterprise delivering that value. In short, it's about the benefit the enterprise will deliver to customers, how it will organize to do so, and how it will capture a portion of the value that it delivers.

A good business model will provide considerable value to the customer and collect (for the developer or implementer of the business model) a viable portion of this in revenues. But developing a successful business model (no matter how novel) is

insufficient in and of itself to assure competitive advantage. Once implemented, the gross elements of business models are often quite transparent and (in principal) easy to imitate indeed, it is usually just a matter of a few years if not months e before an evidently successful new business model elicits imitative efforts. In practice, successful business models very often become, to some degree, ***'shared'*** by multiple competitors.

A business model is more generic than a business strategy. Coupling strategy and business model analysis is needed to protect competitive advantage resulting from new business model design. As described, a business model is more generic than a business strategy. Coupling strategy analysis with business model analysis is necessary in order to protect whatever competitive advantage results from the design and implementation of new business models. Selecting a business strategy is a more granular exercise than designing a business model. Coupling competitive strategy analysis to business model design requires segmenting the market, creating a value proposition for each segment, setting up the apparatus to deliver that value, and then figuring out various ***'isolating mechanisms'*** that can be used to prevent the business model/strategy from being undermined through imitation by competitors or disintermediation by customers.

Strategy analysis is thus an essential step in designing a competitively sustainable business model. Unless the business model survives the filters which strategy analysis imposes, it is unlikely to be viable, as many business model features are easily imitated. For instance, leasing vs. owning is an observable characteristic of business models that competitors can replicate. The ***'newspaper revenue model'*** i.e. low cost for the newspaper, use of advertising (including classifieds) to help cover the costs of generating content e is easy to replicate, and has been implemented with little variation in thousands of geographically separate 'markets' throughout the world.

Having a differentiated (and hard-to-imitate) e but at the same time effective and efficient architecture for an enterprise's business model is important to the establishment of competitive advantage. The various elements need to be co-specialized to each other, and work together well as a system. Both Dell Inc. and Wal-Mart have demonstrated the value associated with their business models (while Web van and many other dotcoms demonstrated just the opposite). Dell and Wal-Mart's business models were different, superior, and required supporting processes that were hard for competitors to replicate (at least in the U.S. elsewhere, new entrants could adopt key elements of the model and pre-empt Wal-Mart, as Steven Tindall has demonstrated so ably in New Zealand with 'The Warehouse'). Both Dell and Wal-Mart have also constantly adjusted and improved their

processes over time. Michael Dell, founder of Dell, notes: This belief that by working directly with customers we could get them technology faster, provide a better level of service, and provide better value e was the basis of the business the fundamental business system was quite powerful and delivered lots of value to our customers we screwed up lots of things, but the one thing we got right was this core business model, and it masked any other mistakes.

Dell's competitors were incumbents who had difficulty in replicating its strategy, as selling direct to customers would upset their existing channel partners and resellers: as a new entrant, Dell had no such constraints. Another critical element of Dell's success, beyond the way it organized its value chain, was the choice of products it sold through its distribution system. Over time, Dell developed (dynamic) capabilities around deciding which products to build beside desktop and laptop computers, and has since added printers, digital projectors and computer-related electronics. Of course, the whole strategy depended on the availability of numerous non captive suppliers able to produce at very competitive prices.

10.7 Business Models as Innovation

Technological innovation is lionized in most advanced societies; that is a natural and desirable reflection of the values of a technologically progressive society. However, the creation of new organizational forms (like the Skunk Works and the multidivisional organizational structure), organizational methods (like the moving assembly line), and in particular new business models are of equal if not greater importance to society, and to the business enterprise. While such innovation may seem less heroic to many citizens even to many scientists and engineers without it technological innovation may be bereft of reward for pioneering individuals, as well as for pioneering enterprises and nations.

The capacity of a firm (or nation) to capture value will be deeply compromised unless the capacity exists to create new business models. As noted, even an inventor as celebrated as Thomas Edison had a questionable track record in terms of business model innovation, abandoning the recording business and also failing to get direct (rather than alternating) current adopted as the industry standard for electricity generation and transmission.

History shows that, unless they can offer compelling value propositions to consumers/users and set up (profitable) business systems to satisfy them with the requisite quality at acceptable price points, the innovator will fail, even if the innovation

itself is remarkable, and goes on to be widely adopted by society. Of course, this makes management, entrepreneurship and business model design and implementation as important to economic growth as is technological innovation itself.

Technological creativity that is not matched by business resourcefulness and creativity (in designing business models) may not yield value to the inventor or even to their society. As discussed and illustrated in many earlier examples; ***technological innovation*** often needs to be matched with ***business model innovation***. ***The innovator is to capture value***. There are of course exceptions for example, small improvements in the manufacturing process (even if cumulatively large) will usually not require business model innovation, and value can be captured by lowering price and expanding the market and market share.

The more radical the innovation, and the more challenging the revenue architecture, the greater the changes likely to be required to traditional business models. As indicated by some of the earlier examples, business model innovation may help to establish a differentiable competitive advantage. Dell didn't bring any improvements to the technology of the Personal Computer but it did combine both suppliers' and its own organizational/distribution system innovations to deliver compelling value to end users: as have Southwest Airlines, Virgin, Virgin Blue, and JetBlue in the air passenger transport sector.

Sometimes the creation of new business models leads to the creation of new industries. Consider the payment card industry (the core of which is credit and debit cards). The card companies provide network services, associate with banks who issue the cards, and associate with acquirers who sign up merchants to accept credit cards. Early on in the life of the industry, merchants were unwilling to accept a payment card that few consumers carried, just as card holders didn't want cards that merchants did not accept. As Evans and Schmalensee note, inventing a new business model for credit the credit card ***'required the industry's founders to invest enormous amounts of capital and ingenuity'***.

Companies should be seeking and considering improvements to business models particularly difficult to imitate improvements that add value for customers at all times. Changing the firm's business model literally involves changing the paradigm by which it goes to market, and inertia is likely to be considerable.

Nevertheless, it is preferable for the firm to initiate such a change itself, rather than have it dictated by external events, as several investment banks in the U.S. and elsewhere have experienced recently.