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The role of dynamic capabilities in supporting business model innovation: evidence from meaning based innovation case studies

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The role of dynamic capabilities in supporting business model innovation: evidence from meaning based innovation case studies

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Part Two: Dynamic Capabilities as Support to Business Model Innovation: Evidence From Case Studies of Meaning Based Innovation

Introduction

Innovation plays a crucial role in the determination of sustainable competitive advantages for companies. In this sense, the increased importance of the business model approach is tightly related to the changes that has taken place in the competitive and market scenario in the last two decades.

Globalisation, digitalisation, rapid innovation cycles as well as significant changes in the consumption patterns have increased the complexity and the speed of change of several markets. In this context, companies need to rapidly adapt to these changing environmental conditions. Firms are constantly challenged to innovate, through the definition of new competitive strategies and the redesign of organisational structures, in order to preserve their competitive position and succeed on the markets. Business models are determinant in helping companies in the innovation process. They help firms in developing new business ideas, evaluate present business activities and define new strategies and organisational structures. Business models represent, in a manageable and simplified manner, the way through which companies create and deliver value to the market, as well as the way through which they extract value from it.

Business model innovation can assume different forms depending on the need of the company to adapt to opportunities and threats that emerge form environmental changes. Different environmental conditions need to be matched through different degrees of business model modification. Not all organisations are equally apt to implement business model innovation. The firm's ability to change its business model in different ways is strongly influenced by its existing organisational design and the quality of its capabilities, its key processes and its culture. Moreover, business model change is typically a "work in progress", which requires collaborative efforts of the top management teams. These teams should perform leadership interventions matching with the emerging business model. In this sense, the organisational dimension of business model changes emerges as a distinct research theme in contemporary strategic and organisational literature that still needs to be fully developed and supported by a growing number of empirical evidences.

The ability of the company to reconfigure its business model for innovation purposes is strongly influenced by the existence of adequate dynamic capabilities. Such capabilities, could be defined ad higher order capacity that helps a firm integrate, build, and reconfigure internal and external resources to address and shape rapidly changing business environments (Teece et al., 1997). Such capabilities reside at the level of top management team, but they also involve the entire organisation. They can be weak or strong and are related to a company's unique history, experience, culture and creativity.

The way through which dynamic capabilities are put in place by companies to support different kind of business model innovation is an emerging research area as existing literature highlighted the relevance of dynamic capabilities for the introduction of company innovation (e.g. Eisenhardt and Martin, 2000; Lawson and Samson, 2001), with a special focus on the introduction of new products or processes. However, being the studies about business model innovation still preliminary, a specific analysis of the contribution of dynamic capabilities to the introduction of business model innovation is missing.

In order to address this issue the present work is divide into two parts:

i) The first one deals with business Model, Business Model Innovation and Dynamic Capabilities construct descriptions. This part is composed of two separated chapters. In the first one the evolution of business model construct is described, through the analysis of existing literature on the subject in the different research areas. In particular, this part deals with the scientific foundations of the business model construct, in the light of the three key theoretical approaches (technology, strategy and organisation) that mostly contributed to its definition. Chapter two is devoted to the analysis of the role of business models in company growth, showing the differences between business model replication and business change and innovation as key success factors for company growth. Different archetypes of business model innovation are identified and described. In the same chapter, dynamic capabilities are described as constructs. Dynamic capabilities enable business model innovation and are tightly connected to the success of innovation practices within the organisation.

ii) The second part of this work is devoted to the presentation of a case study research that focuses on the role of dynamic capabilities in supporting business model innovation driven by innovations in the meaning offered by the company. The purpose

of this exploratory study was to investigate in the role of business models in meaning driven innovation brought by top managers. Furthermore, it was analysed and described the way through which top managers activate dynamic capabilities to reconfigure burins model components.There are non pre-existing researches on this specific subject and the frame of reference for this research topic is still in an evolutionary stage. The sample is composed by three different companies representing the different business model innovation originated by different meaning enriched value propositions: brand repositioning; business model adaptation and disruptive innovation. The aim is to explore the applicability of the conceptual model of three business model innovation driven by meaning in practical contexts. In this sense, the selection of the cases is based on their relevance and their ability of being "exemplary" for the matter.

The research results lead to several managerial and methodological implications. On the whole, several aspects of the relationships between business model innovation and dynamic capabilities are affected by the results. In the first place, the role of meaning as a source of value creation has been analysed and described. It is important to highlight that in all the cases top managers consciously modify business model components to foster the innovation brought by the adoption of new meanings. The identification and operationalisation of meanings is achieved by top managers thanks to the contribution of external consultants and informants. At the same time, depending on the nature of the business model innovation, dynamic capabilities play different roles and are differently activated by top managers. This fact highlighted the presence of different dominant sub-set of dynamic capabilities in the different types of business model innovations. Of the utmost importance is the identification of meaning interpretation and exploitation as a meta dynamic capability of top mangers. The reason for this definition could be related to its role in giving a strategic intent to the other dynamic capabilities. In fact, top managers use the introduction of new meaning to activate and give direction to sensing, seising and transformational dynamic capabilities.

Part One: Business Model, Business Model Innovation and Dynamic Capabilities

Chapter One: Business Model as Construct

The notion of business model has been part of management theory for a long time. In fact, as stated by Teece (2010), business models have been associated to economic behaviour since pre-classical times. The notion of business model is implicitly present the Schumpeterian theory of entrepreneurship as the creation of new business through the combination of resources in new ways (Schumpeter, 1950). Despite this long presence in the managerial and entrepreneurial literature, there is still a poor consensus regarding business model definition and construct (Zott et al., 2011; Lambert, 2008). The reasons for this lengthy and troublesome process of formalisation could be related to: (i) the holistic nature of the concept of business model, which encompasses several aspects of the organisation and its strategic and structural dimensions; (ii) the many different perspectives from which business model has been described over the years, from technology and information systems to strategy and organisation to e-business (Shafer et al., 2005).

In the first part of this chapter the evolution of business model is described, through the analysis of existing literature on the subject, in terms of both meaning and applications over the years in the different research areas. This approach follows the principles expressed by Hart (2001) with reference to literature review. Such review should include: (i) conceptual and theoretical context where to situate the object of research; (ii) comprehensive presentation of literature the issue; (iii) a provision on the research relevance of the topic; (iv) the discussion of significant researches on the subject.

The second part focuses more precisely on the scientific foundations of the business model construct highlighting the three key theoretical approaches (technology, strategy and organisation). Chapter two is devoted to the analysis of the role of business model in company growth, showing the differences between business model replication and business change as key success factors for company growth. In the same chapter, dynamic capabilities are described as constructs. Dynamic capabilities enable business

model innovation and are tightly connected to the success of innovation practices within the organisation. A visual representation of the chapter structure is presented in Exhibit 1.1.

Exhibit 1.1: Structure of Part One (chapter one and two)

Chapter One		Chapter Two	
Business model concept evolution	Business model concept in the different research streams	Business model and the company growth	Dynamic Capabilities
Literature review Concept evolution	Technology research stream Organisation research stream Strategy research stream	Business model replication Business model change and innovation	Dynamic Capabilties Paradigm Concept evolution

1.1. Business Model Concept Evolution

In this paragraph, an evolutionary perspective on the business model concept is provided. The notion of concept could be defined as the building block of theories (Lambert, 2008), or in Neuman (2003) definition:

"A concept is an idea expressed as a symbol or in words".

Business model concept gained momentum during the nineties of last century, with the advent of the New Economy wave and the e-commerce. The need to evaluate the business potential and fund start-ups in the digital environment required a clearer vision of

the business opportunities offered by such disruptive business ideas. The business model concept was used to show how these new companies intended to create and deliver value to the market and take back that value in terms of revenue streams. Even though business model concept gained its notoriety during this period, it should be highlighted that fact that it had been used extensively in managerial literature long before.

Osterwalder, Pigneur and Tucci (2005) noticed that the origins of business model concept date back to an article by Bellman, Clark et al. (1957), while Wirtz (2011) reports other examples of the use of this concept such as in Walton & Eels (1967). However, in these early examples, the business model concept represented several different meanings and there was no specific research interest on this subject.

The origin of business model construct could be more properly located during the seventies, following the birth of computer technology and its applications to organisational issues. As reported by Rajala (2009), early works of Kaufman (1971) defined business models as models for organisational effectiveness, concentrating the attention on computerised models in which a simple modelling of business functions was seen as a necessary aid in managing company's processes and routines. In this definition, business models are very much like the architecture supporting processes and enabling routines (Nacamulli & Pini, 2003). In fact, it could be argued that, until the recent years of the 1990s, the term business model was mostly associated to system modelling and computing. In this sense, it is appropriate to associate the birth of business model concept to information modelling.

The second half of the 1990's saw a progressive adoption of the business model concept in a strategic context, following the birth of e-commerce firms. The adoption of a strategic perspective enriched business model concept of several new aspects, such as revenue models, go-to-market processes and transactional structures and contents (Ghaziani & Ventresca, 2005). This enrichment of the business model concept is presented in Table 1.1, that depicts the frequency of use of business model term in relationship to the different contexts of application. Based on data from ABI Inform, a full-text database that houses management articles, Ghazani & Ventresca collected data from abstracts of articles published from 1975 to the year 2000 containing the phrase "business model" or "business models". Table 1.1 clearly shows the increasing number of articles related to the business model during the period and, contextually, the enriching of the business model concept

with new categories of meanings. The growing presence of business model in managerial literature brought also a more articulated definition of its boundaries and functions. In a more detailed manner, it is possible to notice that the use of business model remains stable for the first 15 years, while it dramatically increases after 1990 in absolute and relative terms. Starting from the mid-1980s business model concept is progressively related to management and strategy terms, such as revenue model and value creation.

Table 1.1: Frequency of business model concept in relationship to the context

Context of Usage	1975-1989	1990-1994	1995-2000	Total	Percentage
Value creation	1	7	81	89	17.06
Tacit conception	4	25	55	84	16.06
Revenue model	0	13	58	71	14.00
Electronic commerce	0	7	57	64	12.06
Computer/system modeling	28	19	13	60	11.08
Relationship management	0	17	35	52	10.03
Business strategy	0	11	14	25	4.09
Varied other	3	12	5	20	3.09
Business plan	2	3	13	18	3.06
Organisation design	0	5	9	14	2.08
Time block totals	38	128	341	507	100
Percentage	8	25	67	100	

Source: Ghaziani & Ventresca, 2005

In this sense ti could be noticed that the process of enriching business model concept with strategic and managerial dimensions originated in mid-1980s, when the interest of researches moved to considering business models as the layer between strategy and operations (Mintzberg, 1988; Davidson and Davis, 1990). In this period, business models were described as tools to support strategic decisions through the representation of the overall impact of such decisions on the corporate structure and components. Business models were used to evaluate the impact of managerial decisions on specific functions of the firm. In fact, business model concept was related to issues such as sales efficiency or operational excellence.

Treacy and Wieresema (1993), in their works on value disciplines, provided an early organisational business model concept. In order to succeed, firms should focus and narrow their scope, becoming excellent in one of the following "value disciplines": operational excellence, customer intimacy or product leadership. Companies that excel in one value discipline and match competition on the other two are capable of acquiring relevant competitive advantages, due to the fact that such companies align their "operating model" to a single value discipline. The notion of operating model shows several similarities with the business model concept presented in this part of the work. The dimensions that characterise such model are: company's culture; business processes; management system and computer platforms.

Following the shift in strategic literature from value chains (Porter, 1981) to value networks (Normann & Ramirez, 1993) as key sources of competitive advantage, business models were described as models to support inter-organisational strategies (Lyons, 1997; Kodama, 1999; Hamel, 2002) especially in digital environments (Hansen et al.,2000; Magretta, 2002; Lee and Vonortas, 2004). Business models were used as a supporting layer for the optimisation of the whole supply chain or as the map to support reengineering processes. In digital environments, business models were used to depict the way by which companies aimed at delivering value to the market and the underlaying revenue model in new and uncertain markets.

In recent years, the business model concept has been progressively enriched. A strong relationship between business model and business innovation has been created ,highlighting the role of business models in identifying and exploiting new source of value creation. In particular, a strong emphasis has been given to the role of business models in transforming the outcomes of open innovation and collaborative environments into financial and economic value (Onetti & Capobianco, 2005; Mitchel & Coles, 2003; Chesbrough, 2004; Chesbrough & Appleyard, 2007). The production process in which customers play the role of co-creators is no longer limited to the production and distribution of products and services but is related to the configuration of business models, either partially or globally (Smith and Wheeler 2002). Indeed, these developments have opened new horizons for the business model concept, that progressively describes the way through which companies organise and engage in economic exchanges, both within and across firm and industry boundaries (Mendelson, 2000).

The evolution of the business model concept, over the last decades, brought with it a lack of a generally accepted definition. This has been the result of the contribution of different theoretical approaches to the study of business model. In order to have a clear understanding of the business model as a construct, its theoretical foundations have to be taken into consideration (Wirtz, 2011).

1.2. Business model concept in the different research streams

Throughout its evolution, business model concept has been the object of researches by authors belonging to different research streams. Such streams could be clustered into three main categories: information technology; organisational studies and strategic management. It is interesting to notice that different authors presented different definitions of the business model concept that might fall into different research streams. Such is the case of Timmers (1998) that in the same publication provides several definitions of the business model concept that might fall into the technological or organisational field of research. While, in most of the cases, the attribution of an author to a specific stream of research could be easily done through the analysis of the journal where the contribution is published, the theoretical background supporting the definition and the quotation of the article by other authors belonging to the same stream of research, in other very few cases the attribution is more difficult and it might be subject to different interpretations.

1.2.1. Information technology

As presented in the first part of this chapter, business model construct emerged from the area of research related to information systems. In fact, the information system field of research was the first one to describe the business model construct as an operational tool to support the development of IT infrastructures in organisations. This early set of studies rapidly evolved, after the innovation of the internet and the birth of e-commerce. More recently, in the hype of Web 2.0 start-ups, the business model construct has been enriched, encompassing internet-specific competitive advantages (e.g. long-tail; freemium; multi-sided platforms) and the way through which these new companies intend to exploit them.

In the I.T.C. field, the goal of business modelling is the creation of a template to support IT architecture. Through the support of an adequate modelling such architecture could be business compliant and thus reduce the costs of development and implementation of both hardware and software solutions. Early business model concepts, developed within this field of research, show a strong functional perspective and an emphasis on the description of core processes and components of the firm, as well as on the semi-mechanical conception of its functioning. As stated by Erkisson & Peaker (2000):

"The business is what ultimately defines the requirements on the information systems, and creating software without a proper understanding of the context in which that software is to operate is a dangerous adventure. In order to get such an understanding, it is essential to make a model of the business".

This model has to be simplified version of reality, allowing IT to focus on the relevant aspects of it and avoiding trivial or minor issues that might interfere with their job.

There are some key concepts that are taken into account when defining a business system for IT modelling and these concepts could be identified as business model components (Erikkson & Peaker, 2000):

(i)   <u>Resources</u>: such as people; materials; information and products;
(ii) <u>Structures</u>: that organise and separate resources in the business;
(iii) <u>Processes</u>: that permit the manipulation of resources. Processes describe how the different aspects of the firm work;
(iv) <u>Goals</u>: that could be declined in sub-goals and then allocated to different parts of the business. They describe the intent and purpose of the business or, in other words, what is it trying to achieve over a certain time span;
(v) <u>Rules</u>: that shape the aspect of business and represent its knowledge.

The advent of the internet and e-commerce brought a new wave in the way business models were conceived (Teece, 2010). The functional and mechanical vision of the business model concept was not adequate to dynamic and complex environments, where the need for innovation was crucial to competitive success. Business model was no longer a simplified blueprint of existing functions and processes, on the contrary it became the first step in modelling business, becoming the project for the future company that internet

systems will allow to exist and grow. In relationship with e-commerce, Timmers (1998) provides a comprehensive definition of business model that is regarded as an architecture for the product, service and information flows, including a description of the various business actors and their roles as well as a description of the potential benefits for the various business actors; and a description of the sources of revenues.

One of the most significant definition of business model in the face of internet revolution and its impact on business is the one provided by Timmers (1998)who describes business model as an architecture describing the flows of information, services and products and the actors that are involved in such process as well as the role play they play in the processes. The architecture is integrated by the description of the benefits that derive to the different business actors involved and a presentation of the possible sources of revenues. Timmers suggest that business model concept should be integrated with "marketing models" that provide a clear description of the competitive advantage, the product-marketing viable options, the positioning strategy as well as the operative marketing key decisions.

Timmers's definition of business model architecture is based upon the works of Michael Porter on the value chain components. Business models are described using the different value chain elements. In fact such elements are used to configure the information along the chain as well as the definition of possible electronic markets where to deliver the created value. Through information processing the different parts of the value chain could be innovated, modified or even eliminated, depending on the level of innovation brought in by the digitalisation. It is interesting to highlight how Timmers constantly separates the constructs of business model and marketing model by assuming that the former defines the viability of technological solutions, while the latter deals with the market success of the business model.

Timmers developed a taxonomy of business models for the internet, based on the level of usage of digital technologies, from experimentation to full adoption. There is no reference to the way in which such business model archetypes are generated by the firms or how they should be replicated and under which environmental and organisational conditions. Eleven business model archetypes are described and classified depending on two variables: the degree of innovation compared to existing offline alternatives and the level of integration between functions brought by the digitalisation. A representation of the

different archetypes and their position in relationship to the two variables is presented in Exhibit 1.2.

Exhibit 1.2: Timmers's Business Model Taxonomy
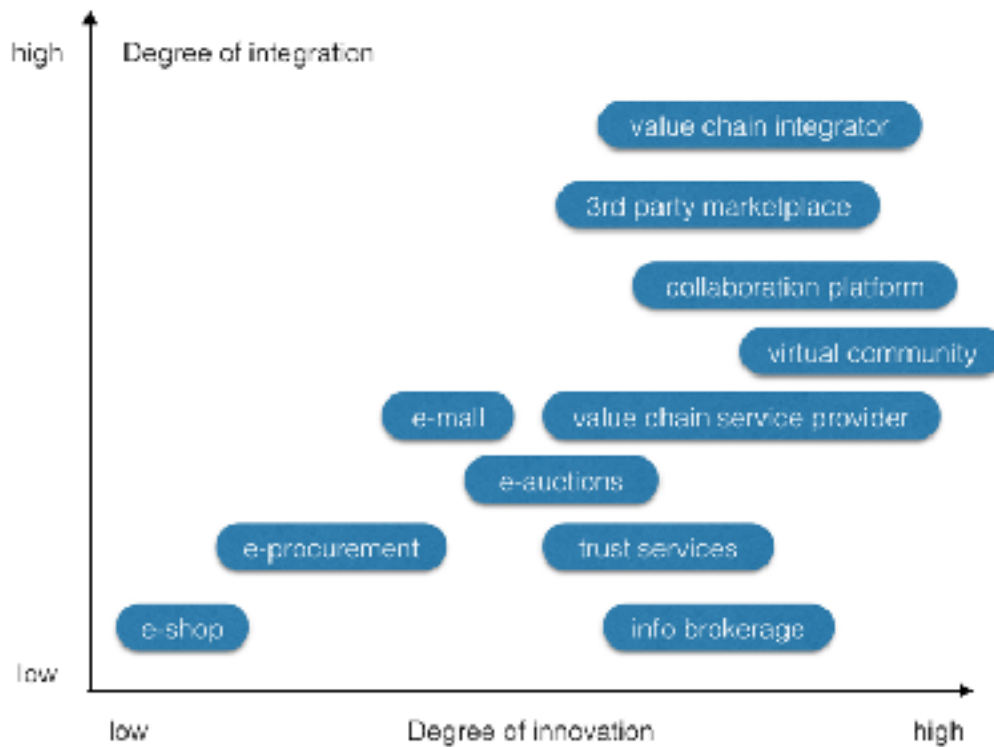
A short description of the main characteristics of the various archetypes is given in Table 1.2. Timmers does not provide any description of the way in which the different value chain components are configured and integrated in the different business models. In fact, he merely describes the benefits that all the actors involved in the business model might access.

Table 1.2: A Description of Timmers's Business Model Archetypes

Business Model Archetype	Main characteristics of the business model
e-shop	It is the web marketing of a company or shop that sells off line. It stems out of previous on line advertising and promotions. The aim of the model is to provide customers with lower prices and full service solutions that cannot be provided through brick and click solutions. Revenue streams are originated by lower operational costs and increased customer base. Extra revenues could potentially be acquired through third-party advertising on the site.
e-procurement	It is the procurement of goods and services through an online platform (or website) implemented, mostly, by large companies and institutions with the purpose of accessing to a larger number of suppliers. E-procurement business model aims at: reducing costs, providing better quality and ameliorating services. Suppliers participate to e-procurement platforms to: gain an access to larger orders often at a global scale, reduce the costs of tender submission.
e-mall	It is a collection of e-shops tied together by a common platform for services, guarantees and payments. E-malls could be specialists (focussing on a single merchandise or customer segment) or generic (covering several product categories at the same time). The e-mall operator sources of revenue are related to the sales of the platform technologies and services to e-shops through membership fees, a possible margin on transactions and advertsing. E-shops, on the other hand, benefit from a larger customer base and lower operating costs. E-mall customers may expect lower prices, larger assortments of products and brands and better services.
e-auctions	This business model represents an ameliorated version of the traditional bidding mechanism. This basic function could be enriched by multimedia offer presentations, payment platforms and delivery services. Revenue streams are originated by: selling the platform to sellers, transaction fees and, possibly, third-part on site advertising. The benefits for platform participants, both buyers and sellers, are related to lower costs, global sourcing opportunities and end-to-end services.

Business Model Archetype	Main characteristics of the business model
trust service	Trust service business models provide certifications for data and information that have to be shared or stored via the internet. Digital certified signature and on-line authentication systems all belong to this business model archetype. The revenue streams that stem out of this model are related to service subscription fees and consultancy fees over the service provided.
info brokerage	It is a business model archetype built on the the availability of large amounts of data and information generated through the internet by individuals and organisations. Several services have been developed during the years to manage this ever growing mass of data: search engines, customer profiling services, big data analysis for decision making. Revenues come from companies that need a cost saving, fast and reliable system to be in touch with their customers or take market related decisions.
value chain service provider	This business model is specialized in the digitalization of a single function of the value chain in order to let the company acquire a relevant competitive advantage. E-banking services, logistic digital platforms are all examples of the way such business model works in several industries.
virtual community	It is a "platform based" kind of business model that derives its value from the participation of members that upload and share their own contents and information. This participation takes place in the digital environment made available by the virtual community. Revenue streams come from membership fees (when applicable) as well as advertising and data selling.
collaboration platform	This business model is configured to provide an adequate support to the collaboration between firms in the form of tools and information. Commonly such platforms are used to integrate functions such as R&D, design ore engineering and to provide the information support for project management with multi functional teams. Revenue streams derive from selling the access to the platform through some kind of usage fee or by licensing specific tools to specialists in the different firms.

Business Model Archetype	Main characteristics of the business model
3rd party marketplace	It is a solution for companies that want to leave their online operations to a third party (such is the case of Yoox for the fashion market). The third party provider offers a unified user interface for the supplier's offer. On top of this functionality several different features could be offered such as branding, payment system, logistics. Virtual community business model could be also integrated with other business model in order to enhance customer participation and feedback and drive loyalty towards a brand.
value chain integrator	Instead of focussing on a single function in the value chain, like the value chain service provider, this business model integrates several parts of the value chain ameliorating or innovating the overall output through the exploitation of the information acquired through the digitalization of processes. The revenue stream is generated by the consultancy fees as well as transaction fees when go-to-market processes are involved.

Source: our elaborations on Timmers, 1998

Hedman & Kalling (2002) use business models to explore the impact of the information technology on the strategic process of value creation. Their work is strongly influenced by the evolutions in the field of digital technologies (the internet in particular). Their work on business model aims at assessing if ICT (i.e. Information and Communication Technologies) improvements create or erode economic value for the firm.

Business models, with their complex structure and their focus on value are regarded as the best tool for developing a better understanding of the economic impact of ICT. Following Davenport's definition (Davenport, 2000), in fact, business models are:

"…Complex in nature, they are supposedly creating value on the product market, they impose their own logic of the world on activities, structure, and strategy, and they are financially and technically demanding" (Hedman & Kalling, 2002).

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Compared to Timmers (1998), their description of the business model construct is more focussed on its components rather than on the description of possible business model archetypes.

In Hedman & Kalling (2002), the business model construct (Exhibit 1.3) , which is proposed as a guideline for IT investments, is defined as follow:

"Based on the existing literature review above, we would propose a business model that includes the following causally related components, starting at the product market level: 1) Customers, 2) Competitors 3) Offering, 4) Activities and Organisation, 5) Resources and 6) Factor and Production Input suppliers. The components are all cross-sectional and can be studied at a given point in time. To make this model complete, we also include a longitudinal process component (cf. Porter, 1991), which covers the dynamic of the business model and highlights the cognitive, cultural, learning, and political constraints on purely rational changes of the model."

As depicted in Exhibit 1.3, these parts of the business model are related to different levels of the organisation following Porter's value chain model. At the market/industry level, the firm encounters its customers and competitors. To address this level the firm defines its offer, based upon its physical and service components, as well as its price/cost strucutre. Offer is obtained through the integration of human, physical and organisational resources into activities and processes. Such activities are triggered by the availability of production inputs available in the factor market.

Following the resource-based view of the firm theories (Barney, 1991), Hedman & Kalling allocate resources such as human, physical and organisation resources to the resources level that feeds in and determines, together with the market level, the activity and organisation level that is built upon the different components of the value chain model.

In this definition, the business model concept is composed not only of resources and processes but it contains external elements such as suppliers, customers and competitors. In this sense, it better formalises the network of actors present in the Timmers's business model construct. Another interesting aspect of this definition is the role of longitudinal components that account for the way business models evolve over time in order to adapt to ever changing environmental forces.

Exhibit 1.3: Hedman and Kalling business model components

market/industry level

customers   competitors

offering

physical component   price/cost   service component

firm

activities and organisation

resources

human   physical   organisational

suppliers

factor markets   production inputs
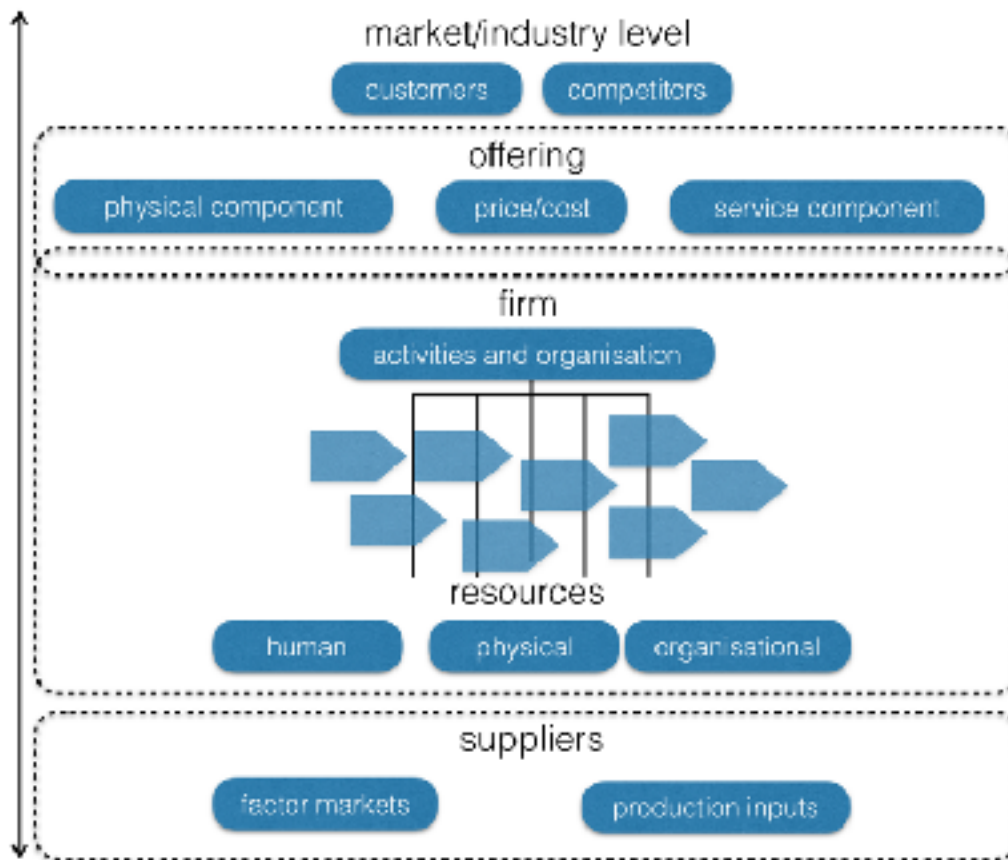
Source: Hedman & Kalling, 2002.

Through these longitudinal processes, managers overcome barriers to the evolution of business model brought by cognitive, cultural and political issues.

The work of Afuah & Tucci (2002) could be regarded as a "bridge" between the IT field of research on business model and the organisational one. The authors applied, in their studies, a technology based perspective but, during their works, they arrived to a generic business model concept that could be applied to any kind of firm or industry. Such construct contains a definition of business model and its components together with a description of business model dynamics over time.

Afuah & Tucci describe a business model in the following way:

"The first determinants of a firm's performance is its business model. This is the method by which a firm builds and uses its resources to offer its customers better value than its competitors and to make money doing so. It details how a firm makes money now and how it plans to do so in the long term. The model is what enables a firm to have a sustainable competitive advantage, to perform better than its rivals in the long term. A business model can be conceptualized as a system that is made up of components, linkages between the components, and dynamics" (Afuah & Tucci, 2002).

In this definition the authors establish, for the first time, a direct and strong connection between business model and competitive advantage in the sense that business model modifications directly affect the competitive position of a firm. The components of the business model and their relationship with outputs and influencing factors and depicted in Exhibit 1.4.

To preserve the uniqueness of the business model and the competitive advantage it generates, Aufah & Tucci propose three generic strategies depending on the key assets of the firm (i.e. capabilities and technology) and the conditions of the external environment: (i) create barriers to imitation by securing key assets; (ii) generate innovation through assets reconfiguration or modification; (iii) establish strategic alliances to access new resources.

Exhibit 1.4: Afuah & Tucci business model components
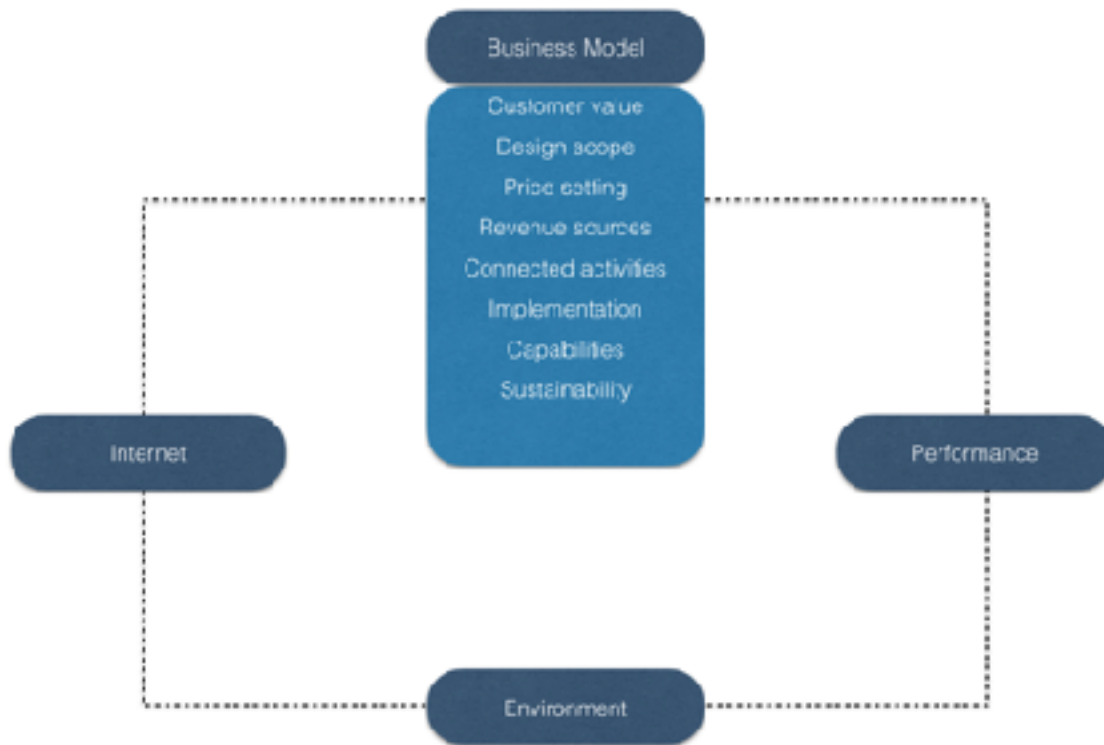
Source: Afuah & Tucci, 2002

1.2.2. Organisational theory

Business model construct has been enriched of new dimensions and applications thanks to the contribution of several authors that belong to various schools within the organisational theories. Business model evolved from a "model" for the design of IT infrastructures, tightly connected to the e-commerce and internet revolution, to a managerial tool that potentially could be applied to any kind of firm for the definition of its value proposition and competitive advantage. While the business model constructs, presented in the IT section of this work, rely upon a set of several different theories (e.g. Hedman and Kalling refer to the resource based-view of the firm theory as well as Porter's competitive advantage model and industrial organisation studies to support their business model construct), the constructs belonging to the organisational field of studies show a unified perspective based on single approaches, models and theories.

Starting from the 1990s, the business model concept was no longer an exclusive domain of the research on IT infrastructures but was adopted by two new research fields: strategy and organisational theory. For the organisational theory, business model represents an abstract description of the company functioning and how it intends to create value and capture resources from the market and, as such, it could help the decision making process of managers (Al-Debei & Avison, 2010). George & Both (2011), when analysing business model concept within the organisational literature, found several broad themes belonging to the organisational theory. The business model is described in relationship with and has an impact on: (i) organizational design; (ii) the resource-based view of the firm; (iii) narrative and sensemaking; (iv) the nature of innovation; (v) the nature of opportunity; and (vi) transactive structures. These antecedents and their impact on the definition of business model are described in the following pages.

1.2.2.1. Business Model and Organisational Design

The works of Hunt (1970) describe the role of managerial agencies in determining organisational structures. In this perspective, managers use business models to establish new organisation forms and define their fit with strategy (Perlow et al., 2002). Business models and strategies are tightly linked in this approach since managers, following

strategic directions, implement business models to avoid inefficiencies. This does not mean that strategies determine the structure of business models as, in the long run, strategies and business models co-evolve in coordinated learning loops (Ghosal & Bartlett, 1994). A definition of business model that is evidently influenced by organisational design is the one provided by Timmers (1998): "business model is an architecture for the product, service, and information flows, including a description of the various business actors and their roles".

1.2.2.2. Business model and the Resource-based View of the Firm

The definition of business model influenced by the resource-based wives of the firm is tightly connected to one of the core issues of this organisational theory, i.e. the process of resource acquisition and allocation. The dimensions of knowledge and dynamic capabilities, that belong to this field of study, contributed to enrich the business model concept through the work of authors such as Venkatraman & Henderson (1998) who defined business model as the interdependence of three vectors: (i) customer interaction vector, (ii) asset configuration vector; (iii) knowledge leverage vector. Eden & Ackermann (2000) define the role of business model in the cycle for the discovery of distinctive capabilities in the organisation in the following way:

"(business model)…serves to sustain: (i) operational responsibilities, e.g. production and selling costs, the 'facilitative organisation, surplus; (ii) continuing support for core distinctive competencies and development of new distinctive competencies through support of a market and/or legitimacy".

Chung, Yam, & Chan (2004) introduced the notion of business model as an open system that is linked not only to the internal dimensions of the organisation but also to social networks and open source knowledge sharing.

1.2.2.3. Business Model as a Narrative Tool of the Organisation

A different perspective on the concept and role of business model is the one provided by Magretta (2002), that defines business models as "stories that explain how a company works". In his HBR article "Why Business Models Matter", Magretta highlights how

business models are like plots of stories built around variations of the same set of elements: "all new business models are variations on the generic value chain underlying all businesses. Broadly speaking, this chain has two parts. Part one includes all the activities associated with making something: designing it, purchasing raw materials, manufacturing, and so on. Part two includes all the activities associated with selling something: finding and reaching customers, transacting a sale, distributing the product or delivering the service. A new business model's plot may turn on designing a new product for an unmet need, as it did with the traveler's check. Or it may turn on a process innovation, a better way of making or selling or distributing an already proven product or service".

On similar lines, Tikkanen et al. (2005) describe business model as "the sum of material, objectively existing structures and processes as well as intangible, cognitive meaning structures at the level of a business organization". The cognitive aspects of business model are composed by the meanings related to the common understanding, among the organisational actors, of how business is composed and the way it works. Key components of the cognitive aspects of a business model are: company's network of relationships, operations, company's key business processes, strategic resources, and the finance and accounting concepts of the company. A comprehensive vision of the business model components and their dynamics is presented in exhibit 1.5.

Exhibit 1.5: Tikkanen et al. business model components
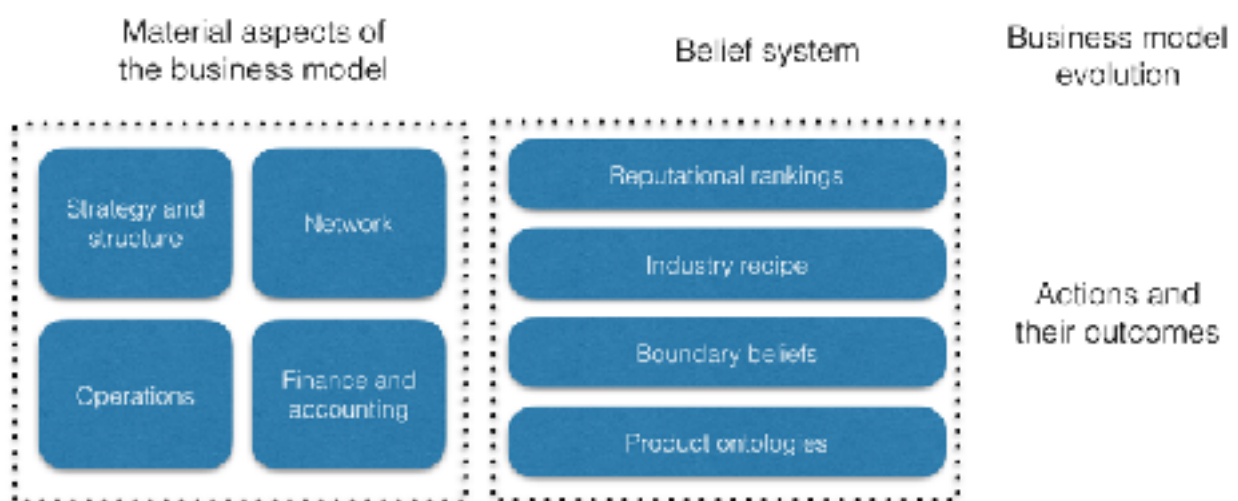
Source: Tikkanen et al., 2005

A relevant aspect of the business model construct proposed by Tikkanen et al. is the inclusion of strategy and strategic intent as material parts of the business model: "we see strategy as the comprehensive pattern of a company's actions and intents binding together all the components of the business model". The way the material aspects of the business model are managed are influenced by managers' belief system: the mechanism that defines this relationship is the one responsible for the business model outcome. A comprehensive model that show the relationships between business model innovation and superior belief system is presented by these authors as a possible determinant of the resistance to change offered by business models within organisations (Table 1.3).

Table 1.3: Relationships between beliefs and material aspects of the business model

	Reputational rankings	Industry recipe	Boundary beliefs	Product ontology
Strategy and structure	The longer the industry life-cycle and the more stable is the industry culture the narrower the alternatives of structural change		The more dominant is an industry culture the more crystallised is the strategic intent of a company	
Network	The higher the cognition of reputational ranking of a firm, the higher the firm expects form partners		The targets of a firm marketing effort is influenced by firm's beliefs about who can be considered as customer and supplier	The more focussed the product ontology, the more goal-oriented is the portfolio management
Operations		The stronger the industry culture the more firms shoe similar architectures	The narrower the beliefs in operational boundaries the fewer are the unique competencies and resources	The cognition of product ontology is a major constraint in the evolution of product and services

	Reputational rankings	Industry recipe	Boundary beliefs	Product ontology
Finance and accounting	The stronger the cognition of reputations rankings, the more uniform the capital budgeting and financial reporting practices of competing firms		The firm's cognition of its boundaries limits its use of financial instruments and accounting practices	

Source: Tikkanen et al., 2005

These narrative related definitions of business model could be rooted in Daft & Weick (1984) works on the role of managers as "sense makers" for the organisation. In this perspective, business model could be defined as: "a set of expectations about how the business will be successful in its environment" (Downing, 2005). The future results of Innovative business models might be hard to define by investors, managers could then draw legitimation and acceptance from stakeholders through narrative sensemaking (Sanders & Boivie, 2004). These "entrepreneurial stories" enable the creation of a new venture identity upon which "legitimacy may be conferred by investors, competitors, and consumers, opening up access to new capital and market opportunities" (Luonsbury & Glynn, 2004). Business model could then be described as a "personal theory", stemming out of the active learning of the entrepreneur from experiences and relationships (Rae and Carswell,2000; 2001). In this narrative approach, business models might evolve and be modified through the narrative process that might take place within the organisation, among different actors. Internal narrative processes contribute to the establishment of organisational structures, rules, hierarchies and retrofit into the meaning making capacity of the organisation (Downing, 2005). In the narrative perspective, business model concept looses some of its objectivity and becomes a more flexible tool that is subject to interpretations and modifications over time. Some authors, following this conception of business model suggested that, in uncertain environments, organisations might try alternative business models at the same time (Brown & Gioia, 2002).

1.2.2.4. Business Model as Innovation Form

In several studies, business model is related to the ability of the firm to exploit technological innovations, in this sense, Chesbrough & Rosenblum (2002) define business model as "a coherent framework that takes technological characteristics and potentials as inputs and converts them through customers and markets into economic outputs. The business model is conceived as a focusing device that mediates between technology development and economic value creation". Chesbrough (2010) depicts business model as the system that is able to translate technical success into commercial success. Such a system is separated from technological innovation but provides the rationale for value creation through the adoption of such new technology and defines the ways through which company recaptures value from the market: "At its heart, a business model performs two important functions: value creation and value capture. First, it defines a series of activities, from procuring raw materials to satisfying the final consumer, which will yield a new product or service in such a way that there is net value created throughout the various activities." This is crucial, because if there is no net creation of value, the other companies involved in the set of activities won't participate. Second, a business model captures value from a portion of those activities for the firm developing and operating it. This is equally critical, for a company that cannot earn a profit from some portion of its activities and cannot sustain those activities over time" (Chesbrough, 2007). The business model construct is described through the several functions it performs:

"Articulates the value proposition (i.e., the value created for users by an offering based on technology);

Identifies a market segment and specify the revenue generation mechanism (i.e., users to whom technology is useful and for what purpose);

Defines the structure of the value chain required to create and distribute the offering and complementary assets needed to support position in the chain;

Details the revenue mechanism(s) by which the firm will be paid for the offering;

Estimates the cost structure and profit potential (given value proposition and value chain structure);

Describes the position of the firm within the value network linking suppliers and customers (incl. identifying potential complementors and competitors); and

Formulates the competitive strategy by which the innovating firm will gain and hold advantage over rivals" (Chesbrough & Rosenbloom, 2002).

Field of research	Information Technology	Organisational studies	Strategy
Main approaches to the business model concept	1975-1995: business model is seen as tool for IT systems construction Since 1995: business model is seen as a strategic condition to assess the value of ventures in the e-commerce	From 1990. Several approaches to the business model concept: organizational design; the resource-based view of the firm; narrative and sensemaking; the nature of innovation; the nature of opportunity; and transactive structures	Antecedents: The relationship between Strategy and Structure (Chandler) Corporate and Business strategy (Andrews) Market-based view of the firm, value chain and competitive forces (Porter) From 2000
Main contributions to the business model concept	Development of the business model concept from IT modeling to management tool	Business model to define organizational fit with strategy Knowledge and capabilities dimensions are added to the business model concept Business model as the system that turns technological innovation into business success Business model is the narration of the firm's success Business model as an opportunity facilitator Business model as the representation of the transaction system	Strategy as part of the business model (Hamel) Business model concept as a tool for strategy design (Osterwalder & Pigneur)
Relevant representative of the research stream	Timmers (1998) Afuah & Tucci (2000) Hedman & Kalling (2002)	Chesbrough (2010) Magretta (2002) Tikkanen et al. (2005) Amitt & Zott (2007)	Hamel (2000) Osterwalder & Pigneur (2009)

The role of business models in providing a proper organisational architecture for innovation might evolve, during the life-cycle of the company, and is very much dependant on the industry characteristics in terms of innovation speed and intensity of capital requested for growth (Andries & Debackere, 2007). Business models tend to adapt to external pressure, such as changes in the nature or quantity of demand, during the company life-cycle and not only to organisational innovation (Saebi, Lien, Foss, 2016). In this dynamic, it is still unclear weather business model structures are determined by the changes and evolutions in organisational design and company's competencies or organisational reconfigurations occur because of business model modifications over time (Francis & Bessant, 2005).

1.2.2.5. Business Model as Opportunity Facilitator

Authors belonging to the school of entrepreneurial studies, describe business model concept as a facilitator of the process of business opportunity identification. Ireland et al. (2001) describe as a typical entrepreneurs' characteristic the fact that entrepreneurs "try to find fundamentally new ways of doing business that will disrupt an industry's existing competitive rules, leading to the development of new business models".

McGrath and MacMillan (2000) show how, even when replicating business models of existing organisations, entrepreneurial firms tend to adapt them to their specific market niche. Business model concept, in this context, is described as a bridging system that connects the entrepreneurial intuition to the value creation process and its exploitation (Afuah & Tucci, 2000; Hedman & Kalling, 2003).

Business models that permit to entrepreneurs to move risk from their firm to resource providers are defined "forgiving business models" (Fiet & Patel, 2008). Such business models explain how entrepreneurs might obtain incremental financial gains in reason of favourable resource dependencies, transferring more risk to resource providers than they were willing to take. Resource providers are willing to accept a higher level of risk because of the perceived commercial value of the venture depicted by the forgiving business model.

1.2.2.6. *Business Model as Transactive Structure*

When explaining the very successful mechanisms of value creation in e-business, Amitt & Zott (2007) define business models as "a structural template that describes the organisation of a focal firm's transactions with all of its external constituents in factor and product markets". Their research interest is very much related to the digitalisation processes that have enabled, in the last decades, the birth and rise of technology mediated interactions between economic agents (Geoffrion & Krishnan, 2003) that radically redesign the way firms organise themselves and transact with the external environment. This new digital scenario modifies the concept of business model that becomes a "conceptualisation of the pattern of transactional links between the firm and its exchange partners" (Amitt & Zott, 2007).

Innovation is brought to sectors and industries through two different kind of business model: novelty-centred and efficiency-centred. Novelty-centred business models represent new ways of conducting economic exchanges among different subjects. Such innovations in transactions could be achieved in several ways: by connecting parties that were originally separated in the market or by creating new transaction mechanisms (e.g. the pay-per-view pricing system instead of the traditntal product price or rent fee). Alternatively to novelty-centred business models, efficiency-centred ones create innovation through the increase of transaction efficiency in the market (e.g. order tracking technologies that enable a higher level of transparency in transactions).
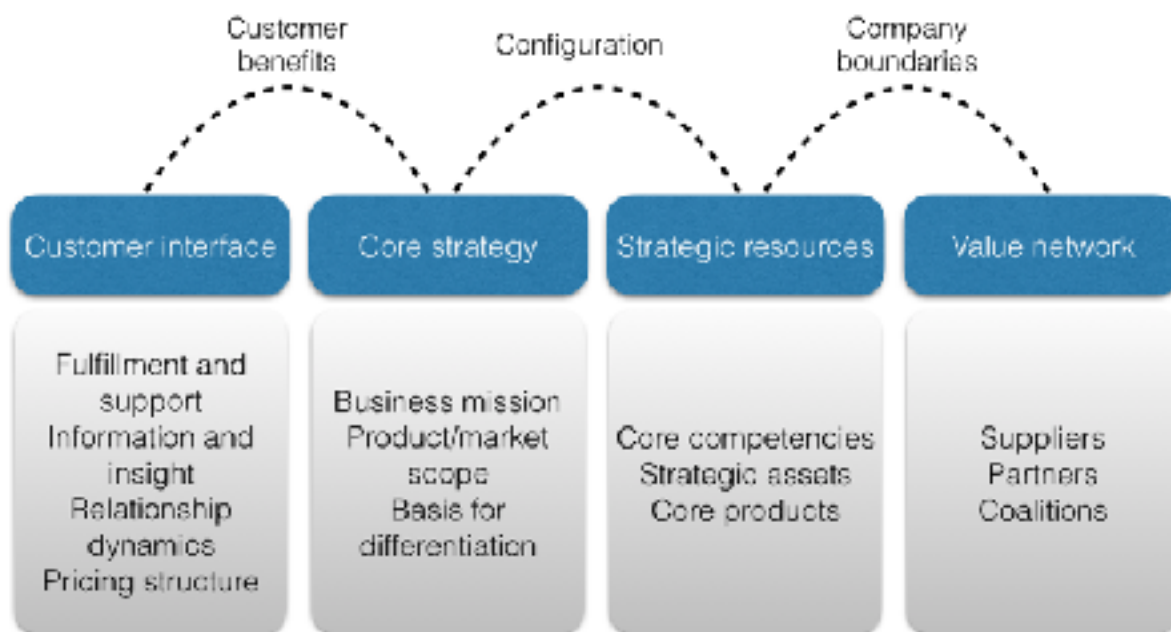
1.2.3. Strategic management

Organisational studies on business model, despite their differences in the approach, contributed, on the whole, to change business model concept by turning it into a management tool. Strategy researches further enriched the business model construct:. Thanks to their contribution, business model encompasses also the core strategy of the firm so that it becomes impossible to separate it from the business model components and its configuration. The most significant contribution to this area of studies is the one of Gary Hamel (2000), who identifies four major components of the business model:

(i)   Core strategy, that is composed by the business mission, the product and market scope and the basis for differentiation;

(ii) Strategic resources, which are related to the core competencies of the firms, its strategic assets (tangible and intangible ones) and the core processes that allow the value creation);

(iii) Customer interface, which defines all the determinants of the way a company reaches the market (go-to-market strategy). It includes the fulfilment and support activities, the pricing structure, the way the firm establish relationships with customers (relationship dynamics) and the marketing information system (information and insight) that allows a complete understanding of customers' needs and wants;

(iv) Value network: that could be defines as the subjects that surround the firm and that complete and amplify the firm's resources. Elements of such networks include suppliers, strategic partners that provide complements to the final product or service and coalitions of firms.

These major elements of the business model are linked together by bridging components or activities: (i) configuration activities, that link core strategies to resources defining the organisational structure and architecture of the firm; (ii) customer benefits, that connect customer interface and core strategy turning customer insights into competitive strategies; (iii) company boundaries, that establish a relationship between the strategic resources and the value network of the firm defining the make or buy options for the firm. A comprehensive description of the different business model components of the Hamel's business model concept is presented in exhibit 1.6.

The profit potential of the business model is related to four key characteristics: efficacy; uniqueness; fit (it represents the leverage between all the business model elements) and profit boosters (these are characteristics of the business model that make it scalable, capable of economies of scale, able to generate cost reductions through learning effects and to lock out competitors) .

Exhibit 1.6: Hamel's business model components

Source: Hamel, 2000

There are several antecedents to the business model concept in the strategic management literature (Chesbrough & Rosenbloom, 2002). Chandler (1962) described the relationships between strategic considerations and company structure, pioneering the relationships between strategy and business model. Andrews (1971) introduced the distinction between corporate and business strategy, the latter being related to the single business units of the firm. Chesbrough & Rosenbloom (2002) noticed how several business model definitions show similarities with the concept of business strategy.

Market-based view of the firm is the stream of research in strategy that shows the highest level of integration with the business model concept. In this field of strategic studies a particular emphasis is given to the competitive orientation of the firm and the relationships of the firm with the external environment. One of the most representative authors in this field of studies is Micheal Porter (1980), who elaborated and formalised the so-called "five forces model" for the analysis of the competitive environment of the firm as well as the "value chain model" to assess the determinants of competitive advantage. The value chain model, in particular, with its relationship between firm's value chain configuration and the competitive strategy adopted by the management shows many commonalities with the business model concept as expressed by Hamel. On a similar line, it is possible to include in the strategic research stream the work of Osterwalder & Pigneur (2009). These authors define the business model concept as "the rationale of how an organisation creates, delivers and capture value". It seems clear from their works on both business model concept and business model archetypes that these authors perceive no clear separation between business model configuration and strategy definition.

The concept of value proposition, that is one of the building blocks that compose the business model, is not too different form the concept of competitive strategy in Porter's works or the one of core strategy in Hamel's ones. They way business model components are organised to create specific value propositions and capture the value create from the market are defined "patterns". Among these patterns Osterwalder & Pigneur (2009) include several ones derived from e-commerce such as the long tail model , the multi-sided platform and the freemium model. All these patterns show how, for these authors, strategy is part of the business model, making it impossible to separate one from the other in a sequence of separate decisions: the strategy is the business model and is explained and depicted through the business model components.

The building blocks that compose the business model concept differ from the ones presented by Hamel (2000). The business model "canvas" (i.e. the various organizational and strategic dimensions that, once combined together, compose the business model concept) presented by Osterwalder & Pigneur (2009) is a synthetic description of the four main areas of business "customers, offer, infrastructure and financial   viability. The business model is like a blueprint for a strategy to be implemented through organizational structures, processes, and systems". A synthetic representation of the business model canvas is presented in exhibit 1.7.

Exhibit 1.7: Osterwalder & Pigneur business model canvas
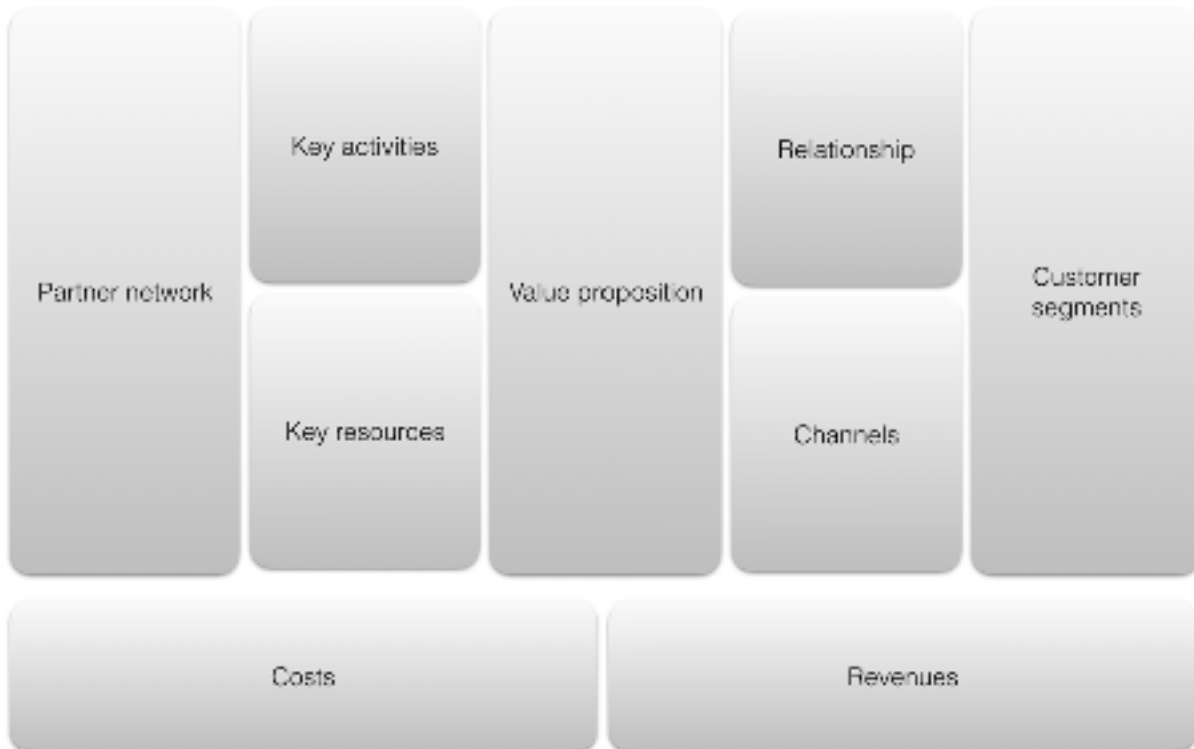
Source: Osterwalder & Pigneur, 2009

The interest in the business model concept has grown over the last decades and has attracted the interest of researchers belonging to several theoretical backgrounds. This interest is shown in the always growing number of articles and contributions on the subject in the managerial literature. George & Bock (2010) recently highlighted the difficulty of reviewing the literature on business models because of the number of contributions and their different disciplinary perspectives:

"An EBSCO© database search for "business model" on December 1, 2008, generated 929 title hits, 10,715 abstract/keyword hits, and 89,923 all-text hits. At the same time, use of

the business model construct is relatively recent—of the 929 title hits, only 107 were published before 2000, and only 7 of those before 1990".

This multidisciplinary perspective has progressively enriched the business model concept, transforming it from a tactical tool for information system design to a key part of the firm's value creating process. Table 1.4 shows the different contributions of the three main theoretical approaches (information technology; organisational studies and strategy) to the business model concept and the authors that mostly influenced the subject with their works. It is important to highlight that, despite the many differences that still exist in the approach to the business model concept, by the different research schools and by the different authors within the same stream of research, a common conceptual understanding of the business model concept is being established. The business model construct definitions reported in Table 1.4 have been selected following their presence as key contributions in several articles dealing with the subject of business model concept and their quotation in articles reconstructing the different approaches to the business model construct. Another criteria that has been adopted is the number of contributions of the various authors to the topic of business model concept definition.

Table 1.4: overview of the theoretical foundations of the business model concept

Field of research	Information Technology	Organisational studies	Strategy
Main approaches to the business model concept	1975-1995: business model is seen as tool for IT systems construction Since 1995: business model is seen as a strategic condition to assess the value of ventures in the e-commerce	From 1990. Several approaches to the business model concept: organizational design; the resource-based view of the firm; narrative and sensemaking; the nature of innovation; the nature of opportunity; and transactive structures	Antecedents: The relationship between Strategy and Structure (Chandler) Corporate and Business strategy (Andrews) Market-based view of the firm, value chain and competitive forces (Porter) From 2000
Main contributions to the business model concept	Development of the business model concept from IT modeling to management tool	Business model to define organizational fit with strategy Knowledge and capabilities dimensions are added to the business model concept Business model as the system that turns technological innovation into business success Business model is the narration of the firm's success Business model as an opportunity facilitator Business model as the representation of the transaction system	Strategy as part of the business model (Hamel) Business model concept as a tool for strategy design (Osterwalder & Pigneur)
Relevant representative of the research stream	Timmers (1998) Afuah & Tucci (2000) Hedman & Kalling (2002)	Chesbrough (2010) Magretta (2002) Tikkanen et al. (2005) Amitt & Zott (2007)	Hamel (2000) Osterwalder & Pigneur (2009)

From the early years of 2000, there has been a growing interest for a generic approach to the business model concept that could overcome the different perspectives generated in the various research streams. At the same time, various authors are modifying and enriching their visions on the business model concept, showing a progressive inclusion of organisational and strategic elements in it. Hedman & Kalling (2003) contributed to the debate around the creation of a unified perspective of the business model concept by presenting an approach to business model that contains elements of all three theoretical approaches.

Pateli & Giaglis (2004) provided a framework that decomposes the present literature on business model into different and separated domains: definitions; components; conceptual models; design methods and tools; taxonomies; change methodologies; evaluation models; adoption factors. In front of this search for a unified perspective on the business model construct, Lambert (2006) noticed that business model definitions are established according to the business model's intended field of application and that there is a growing need for empirical researches that might help in the validation of the different business model concepts.

Given their abstract and complex nature, a general classification is crucial to understand business models (Lambert, 2006). Following Neuman (2003), classifications could be depicted as the intermediate layer between a single concept and a theory, since they help organise abstract and complex concepts. This act of organising involves the ordering of concepts on the basis of similarities (bailey, 1994). In this sense, the identification of similarities and differences between the business model concepts is a key step in the development of the research on this topic as good classifications are the cornerstone for theory development (Mezzich & Solomon 1980; McKelvey 1982).

In the next pages the different business model concepts presented in the previous paragraphs of this chapter will be classified, in search of differences and commonalities between them. The approach used for this clustering begins with the collection of data and then creates generalisations as the basis for observantions (Cavana, Delahaye et al. 2003; Neuman 2003).

The clustering process adopted requires the description of the business model concepts belonging to the different research streams. The business model concepts selected for this purpose are the ones proposed by the authors reported in table 1.4. These authors have been identified on the basis of the following criteria: completeness of the business model construct definition; quotations in other authors' publications; number of articles and books produced on the subject; presence in publications belonging to different research streams.

The contributions reported in Table 1.4 are analysed in the following pages in order to provide a comprehensive vision of the different constructs and identify similarities and differences among them. At the end of this process a generic business model definition is provided, integrating the various perspectives and highlighting the commonalities between them. As suggested by Wirtz (2011), the criteria adopted for the clustering process are derived from the observation of the different constructs and their characteristics applying the discovering theory methodology as presented by Glaser & Strauss (1967):

"In discovering theory, one generates conceptual categories or their properties from evidence; then the evidence from which the category emerged is used to illustrate the concept".

When analysing the different definitions of the business model concept, some general categories seem to emerge. Such categories could be used to compare the definitions provided by different authors and different research streams. Through this comparison, similarities and differences are highlighted. The categories identified could be described in the following manner:

(i) <u>Level of application of the construct</u>: authors adopt different perspectives when it comes to the application of business models. On the whole, there are three different positions on the subject that refer to business model as applicable to: business units, the whole organisation and the whole industry or market.

(ii) <u>Incorporation of business strategy in the construct</u>: the evolution of the business model concept has been characterised by a growing strategic relevance. From being a "scale model" of the company for supporting IT systems design, business model concept has been progressively described as the representation of how a company works and grows. In this sense, corporate and business strategies - that were originally perceived

as external to the construct and that was, in fact, influenced and determined by them - are progressively being included in the business model components or definition.

(iii) <u>Description of business model components as part of the construct</u>: there are different degrees of accuracy when describing how business models are built and which are the composing parts. In some cases, authors focus their attention on the generic functionalities of business models, while in other cases there is a higher level of description of the business model components.

(iv) <u>Description of the interrelations between the different business model components and the way interact with each other</u>: while the business model components are present in several constructs, the description of the interactions between such elements and the way a business model "works" is not so common and, in many cases, is totally missing.

(v) <u>Identification of business model archetypes</u>. Some authors propose a set of possible business model archetypes related to specific value propositions or resource configurations. Most of the archetypes presented in Table 1.4 are related to internet and e-commerce and show how digitalisation might affect the way firms do business, reconfiguring processes and resources. The presentation of archetypes beyond the boundaries of digital environments is very poor. This fact shows the need of a case based analysis of business models in different markets and industries in order to make further developments in the ontology of business model.

A confrontation between the most relevant contributions on the business model construct (as reported in table 4) based on the presented categories is reported in Table 1.5.

Table 1.5: analysis of the different constructs presented by leading authors of the different research streams

	Level of application	Incorporation of strategy	Components description	Interrelations and functioning	Business model archetypes
Technology field of research					
Timmers (1998)	Company-wide Business models are referred to companies operating in digital environment	Timmers separates business model and marketing model. There is no reference to the inclusion of strategy (corporate or BU) in the business model	Timmers refers to Porter's value chain model as the source of business model building blocks	There is no specific description of how business model works. Author's interest is focussed on the taxonomy of business models and not on the way they are configured	Timmers provides a taxonomy of 11 business models based on the degree of innovation and integration brought by digitalisation
Afuah & Tucci (2000)	Company-wide Business models are referred to companies operating in digital environment	Strong connection between business model and firm's competitive advantage. Strategy is an antecedent to business model configuration	The authors describe the different components of business model: Customer value Design scope Price setting Revenue sources Connected activities Implementation Capabilities Sustainability	There is no specific reference to the relationships between the different business model components and the way they are interrelated.	No archetypes are provided

	Level of application	Incorporation of strategy	Components description	Interrelations and functioning	Business model archetypes
Hedman & Kalling (2002)	Company-wide Business models are referred to companies operating in digital environment	Strategy is not included in the business model definition but there is a reference to the evolution of business model allowed by organizational processes and activities	Components are presented as belonging to different levels of the organisation: Market or offering level (customers and competitors) Firm level (human, physical and organizational resources) Supplier level (factor marketers and suppliers) There is an inclusion of subjects outside organisation boundaries as parts of the business model	There is no specific description business model way of functioning.	No archetypes are provided
Organisational studies filed of research					

	Level of application	Incorporation of strategy	Components description	Interrelations and functioning	Business model archetypes
Magretta (2002)	Company-wide	The role of strategy is not clearly explicated. In the generic defintion of good business model as beginning with an insight into human motivations and ending in a rich stream of profits the process of strategy formulation seems to be included in the business model	There are two main macro parts that compete every business model: the ones related to creating the offer and the ones related to selling the offer	Business model is presented as a storytelling activity. The story is a variation of previous ones that could all be reconnected to the configuration of Porter's value chain.	No archetypes are provided
Tikkanen et al. (2005)	Company-wide	Strategy is explicitly mentioned as one of the key components of business model The focus of business model is on organizational aspects of value creation	Key components of the cognitive aspects of a business model are: company's network of relationships, operations, company's key business processes, strategic resources, and the finance and accounting concepts of the company	A superior belief system shapes and innovates the business model though there is no description of the ways through which such relationship is established and implemented	No archetypes are provided

	Level of application	Incorporation of strategy	Components description	Interrelations and functioning	Business model archetypes
Amitt & Zott (2007)	Company-wide with a reference to the role of digitalization in redesigning the relationship between actors in internal and external environment of the firm	Innovation is brought to sectors and industries through two different kind of business model: novelty-centred and efficiency-centred. There is no reference to the role of strategy but it could be argued tha it is part of the process of business model definition	There is no description f the components of a business model	There is no clear description of how the transactive innovation process is achieved through the configuration of business models	Business model are categorized in efficiency centered and novelty centred and a path of innovation is identified through possible archetypes. Novelty business models can innovate transactions: by connecting parties that were originally separated in the market or by creating new transaction mechanisms. Efficiency-centred ones create innovation through the increase of transaction efficiency in the market.

	Level of application	Incorporation of strategy	Components description	Interrelations and functioning	Business model archetypes
Chesbrough (2010)	Company-wide	Business model has two main functions: value creation and value capture The definition of the competitive strategy is on of the functions of the business model	Business model is not described in terms of components but in terms of functions it performs: Articulates the value proposition); Identifies a market segment and specify the revenue generation mechanism; Defines the structure of the value chain; Details the revenue mechanism(s); Estimates the cost structure and profit potential; Describes the position of the firm; Formulates the competitive strategy	Business model are influenced by the external environment but there is no clear description of the mechanism that provoke the evolution of business models	No archetypes are provided

	Level of application	Incorporation of strategy	Components description	Interrelations and functioning	Business model archetypes
Strategy field of research					
Hamel (2000)	Company-wide Business models are not referred to specific industries or technological al environment	Core strategy is considered one of the building blocks of business model. Core strategy contains assumptions on the basis of differentiation, core customer segments and firm's vision and mission	Business model is comped by four building blocks: Customer interface Core strategy Strategic resources Value network	The business model components work through the support of bridging activities	No archetypes are provided

	Level of application	Incorporation of strategy	Components description	Interrelations and functioning	Business model archetypes
Osterwalder & Pigneur (2009)	Company-wide and business unit Business models are not referred to specific industries, though a strong emphasis is given to the description of business models that operate in digital environment	There is no clear separation between business model and strategy formulation	There are different building blocks organized in a canvas: Partners Key activities Key resources these elements generate the costs of the business model Value proposition Channels Relationship Customer segments these components determine the revenue streams of the business model	Value business model and cost business models are presented and described in the way the different parts of the canvas are configured and integrate with each other	There are several archetypes related to the different configuration of the canvas, mostly related to digital environment

Even though there are consistent differences between the approaches to the definition of business reported in Table 1.5, it is nonetheless possible to draw some basic commonalities that could determine the common ground for a comprehensive definition of business model.

(i) <u>Role and objective</u>: It is agreed by most of the authors that business models are the firm structures through which companies perform the two crucial macro processes of value creation and delivery and value capture from the market (Rajala, 2009). In other words: a business model describes the rationale of how an organisation creates, delivers and captures value in a very unique and hard to imitate way (Rumelt, 1987).

(ii) <u>Business model components</u>:It is possible to detect some common features in most of these representations that could be summarised in a small number of components: the offering or value proposition, the customer segments, the revenue model, the internal resources and assets, the network of suppliers and distributors, the key processes and value chain.

(iii) <u>Integration with strategy</u>: there is no clear pattern on this subject among the different definitions. It is interesting to highlight the fact that the relationship between strategy and business model gained a central role in business model definition with the migration of the business model concept from information system definitions to organisational and strategic ones. It is possible to argue that the growing relevance of business model as a managerial tool for defining the value proposition implied a greater strategic role for business model within the organizations. The growing strategic role progressively blurred the borders between the process of strategy formulation and the business model design.

(iv) <u>Business model archetypes</u>: the presence of archetypical business models is not common in business model definition. In the definition analysed, the archetypes presented are always related to the impact of digitalization on processes and organizations (Timmers, 1998; Amit & Zott, 2007; Osterwalder & Pigneur, 2009). In this sense, it could be argued that the formalization of "ideal" business models is an open field of research that calls for more investigations on the subject. The lack of empirical studies on business model outside digital environments is, in fact, one of the limitations to the development of a richer perspective on the topic.

to the identification of similarities and differences between business model definitions, it is now possible to present a generic definition of business model that encompasses the different approaches to the construct and the contribution of key authors in the different research fields and, at the same time, show some unique traits.

Business model describes management's hypothesis about the way through which a firm creates and captures value through the configuration of a set of internal and external

components, under the impulse of the core strategy. The proposed definition is composed of several parts:

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i) <u>Business model as management's hypothesis</u>: business models are tools in the hands of managers to give a strategic intent to their actions and shape organisations and processes.

ii) <u>Business model is value centred</u>: the notions of value creation, delivery and exploitation are the central focus of business models.

iii) <u>Business model is related to configuration</u>: business models help managers shape the organisation, aligning competencies, skills and assets in functions, processes and routines.

iv) <u>Business model orchestrates internal and external components</u>: through business models, managers can create the adequate architecture to operate in network organisations, integrating suppliers, distributors and competitors into a stable set of relationships.

v) <u>Business model is shaped under the impulse of core strategy</u>: Though business model and core strategy might be described as separated entities, they are tightly connected and deeply integrated. In this sense, it is possible to assume that business model is influenced by core strategy as much as, over time, core strategy options are influenced by operating business models.

Chapter Two: Business model and the growth of the company

The operational definition of business model, provided at the end of the previous paragraph, implies that managers' assumptions on the way a firm creates value for market through the quality of its business model should be tested in the market. Business models might, in fact, be in need of adaptation or even reconfiguration over time due to external discontinuities and disruptions. In a contingency perspective, profitability and growth are strongly influenced by the fit between a firm's business model and the external dynamics ((Galbraith, 1973, 1977; Lawrence & Lorsch, 1967). The way through which a firm adapts its business model to external factors is still a new field of study and the number of contributions is very limited (Bohnsack et al., 2014; Achtenhagen et al., 2013; Mason and Leek, 2008).

The way a business model can contribute to company growth has been approached, by researches and academics, in two distinct ways: replication of business model through templates or principles, and innovation of business model to adapt to external factors .

2.1. Towards a replication theory for business models

Different scholars, belonging to the field of studies devoted to the research on knowledge transfer, are focusing their attention on the relationship between superior replication capabilities and competitive advantage (Argote & Ingram 2000, Bradach 1997, Kostova 1999, Reagans & McEvily 2003). The growth of the firm is guaranteed through the replication of successful local applications of business model (Winter and Szulanski 2001). Replication could be defined as the managerial process devoted to the exploitation of

specific sets of knowledge to replicate success in new locations (Baden-Fuller & Winter, 2007). Replication could take place through the adoption of principles or templates:

(i) <u>Principles</u> are complex knowledge structures that provide a rationale for the functioning of certain combinations of knowledge. Principles offer no instructions for replication as the recipient of such principles is expected to find his/her best way by applying the overall logic beneath the functioning of the set of knowledge. Principles could be applied to the process of replication in complex environments, when workers with a high level of skills are involved.

(ii) <u>Templates</u>, on the contrary, could be described as a form of knowledge repository that refers to processes that could be replicated through the application of codified forms such as work manuals. Replication through templates can take place only if the knowledge needed is formalised and made explicit in all its parts: this kind of knowledge transfer often happens through the observation of the example by the recipients. In this case, template transmission implies the involvement of personnel from the master organisation to supervise the start-up phases of the replication process (Hounshell 1984, Argote, et. al. 2003). Templates are not necessarily static in nature as they might evolve over time. In some cases it is possible to see a substitution in the template adopted with a new one that better fits the needs of large scale replication. The process of template creation is a complex and articulated one that encompasses the phases of construction, adjustment and codification into transferrable knowledge.

Wether replication should take place through the adoption of principles or templates is a decision influenced by several factors such as: (i) the level of turbulence of the external environment; (ii) the level of costs related to the control of the replication process; (iii) the characteristics of the processes that need to be replicated and (iv) the level of skills and motivation of the people involved in the transfer process (Baden-Fuller & Winter, 2007). A synthesis of the determinants of replication options is presented in Table 2.1.

On the whole it could be argued that:

(i) the more complex and turbulent is the external environment;
(ii) the higher the cost of monitoring and control of the replication process;
(iii) the more complex is the process to transfer;

(iv) the more skilled and motivated are the people involved;

the more principles better fit the replication process in comparison with templates.

Table 2.1: the determinants of the adoption of principles or templates for business model replication

	Template	Principle
External environment	Stable	Turbolent
Cost of control	Low	High
Characteristics of the process	Simple and predictable	Complex and with low level of predictability
Level of skills and motivation of the people involved	Low	High

In relationship to business models, the replication through templates gained momentum in the past few years, with particular reference to the success of formulas such as franchising and other Vertical Marketing Distribution Systems. Authors such as Winter and Szulanski (2001) argue that the process through which a business model is turned into a template and eventually replicated is the key aspect of successful profitable growth. The quality of the replication process is heavily dependent on the definition of the template. The "discovery" of the right template is a complex and crucial part of the replication strategy that has been often neglected in literature. Recently, Winter & Szulanski elaborated a "replication-through-template" theory that offers a comprehensive vision of the process of

business model replication, showing possible unifying traits between the contingency theory of business model innovation and the replication of templates. Such theory of replication strategy proposed by Winter and Szulansky is based on different contributions that could be perceived as its theoretical background. In particular, these authors refer to:

(i) Rogers (1995) and his works on the diffusion of innovation in   population of organisations;

(ii) Cool et al. (1997) for their works on intra-organisational diffusion of technology;

(iii) O'Dell (1998) and Szulanski (1996) for their contribution to the analysis of how companies transfer best practices within the firm.

2.1.1. Replication strategy based on Template

Replication is often regarded as a mere transfer of simplified knowledge. On the contrary, replication of business models through templates requires, in the first hand, the identification of what could be defined as the "right" template to replicate. In this sense, Winter & Szulanski (2001) observe that: "by definition, replication is maximally effective when only the necessary value creating facets of a template are identified and replicated, and no time or effort is devoted to the replication of deleterious or superfluous features". In fact, a firm's economic performance might be seriously compromised by the modification of working templates (Nelson & Winter, 1982; Axelrod & Cohen 1999). The risk of a negative impact on the economic performance of business model adaptation increases when templates show high levels of complexity or when the adaptations might generate consequences that are hardly predictable. In this case business model templates show high levels of casual ambiguity (Knott 2001; Rivkin 2000, 2001).

The knowledge transfer that is involved in the replication process should be considered as broad scope one, since it significantly changes the organisation of the recipient unit, in some cases totally redefining it identity (Wnter & Szulanski, 2001). In this sense, replication allows local unit to locally produce their product or service by the replication of a template. This is the case of units such as fast-food restaurants, that produce and deliver their products through the application of a pre-defined business model that is transferred by the central organisation. The creation of such autonomous outlets implies a consistent

transfer of practices and skills that accounts for the broad scope of knowledge transmission.

Replication process could be described as composed of two separate phases (Bradach, 1998; Love, 1995):

(i) <u>The exploration phase</u>, which is devoted to the definition and refinement of the business model that will work as template for the replication process.
(ii) <u>The exploitation phase</u>, which is the phase of large scale replication. In this phase the business model template is stabilised and its assets are leveraged.

These two phases are separated by a transition one, where the capabilities needed for the effective replication are created and refined. The formalisation of separated phases in the replication process is not universally accepted in organisational literature as several authors consider replication as a constant balance between adaptation and exploitation (Levinthal & March, 1993; Lewin et al., 1999; March, 1991).

To allow the replication process to take place in all the different phases, the centre of the organisation is in need of a specific set of capabilities that evolve at each replication of business model (dynamic capabilities). Such skills and capabilities are related to the knowledge of the elements of the business model and of the actions that need to be undertaken to allow replication in different contexts. Another set of skills and capabilities is the one related to the knowledge of the local situations in which the different replications will take place. The path of growth of a firm that adopts a replication strategy is very much dependent on the   quality of these dynamics capabilities.The amount of information needed for the replication strategy is progressively refined over time thanks to the dynamic capabilities of the centre.

In this perspective, replication strategy and its phases could be represented through a sort of "replication life cycle" (Nelson and Winter 1982). The starting point of this cylce is the identification of a successful branch (i.e. office, plant, outlet) as a possible template. Such a template is not, at this stage, the best possible one, but it is the most promising one to become an archetype for growth. The definition of the "optimal" template is a complex path that involves the discovery of the replicable sources of success out of several variables that could explain the performance of the original template. At the same time, tacit

knowledge that is behind the success of the template must be brought into light and formalised. Evidently there is a learning process beneath the replication strategy that accounts for the progressive amelioration of the template at every replication until the "ideal template" is reached. This learning process accounts for the exploration phase of the replication strategy and aims at uncovering the ideal template, and the supporting information.

The exploitation phase of the replication strategy goes through the same sort of life cycle. In the early phases, the adoption of the template might be hard since the information available, together with the processes and routines needed, are still referring to the first template, that might not be the optimal one and might contain elements that are hard to replicate or that are not creating any value in the process of exploitation. Through a feedback process, the unit informs the organizational centre of the difficulties in the replication and this allows an amelioration of the template, progressively creating the ideal template. Once the ideal template has been defined, the exploitation phase takes place through perfect replication. A synthesis of the replication strategy life cycle is presented in exhibit 2.1.

Exhibit 2.1: Winter and Szulanski replication strategy lifecycle
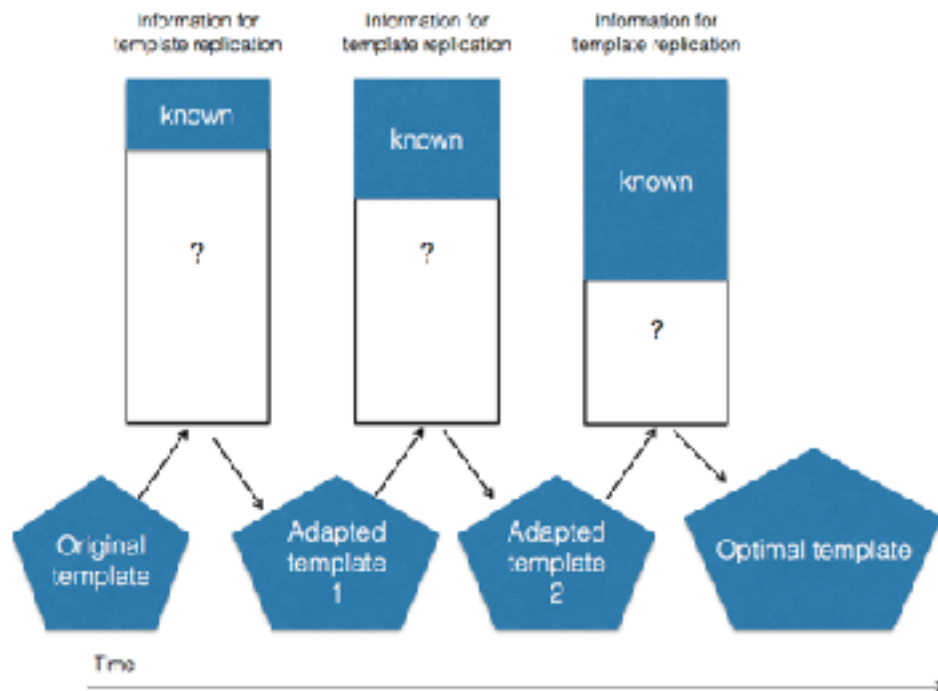
Source: our adaptations on Winter & Szulanski, 2001

The set of information, processes and routines, needed for replication, becomes progressively known to the central unit. This progressive disclosure of knowledge, activated by dynamic capabilities, ameliorates the quality of the template and its replicability without adaptations or corrections by recipient units.

The replication strategy presented in exhibit 8 shows some areas of ambiguity in the process of definition of the optimal template, that might affect the effectiveness of the proposed model:

(i) The relationship between central unit and recipient unit, in the different stages of the adaptation of template, is unclear. In particular, the recipients should actively support the learning process of the central organisation, in the definition of the adapted templates, by providing feedbacks on the quality of the template they are applying to their local branch. In the presented model, there is no particular reference to how this reverse flow of information should be structured. The central organisation develops an

intense learning process, but it is not clear how the information needed are collected from the field and integrated in the process of adaptation of template.

(ii) The way through which the central organisation reaches the optimal template is unclear. In the model proposed by Winter & Szulanski, the central organisation progressively acquires all the information needed to obtain a template that contains only the aspects required for the replication. The mechanism that accounts for this process of knowledge creation is not clear under several aspects: the definition of the ideal template, in front of dynamic environments and different local situations, might be an endless progress as the knowledge needed to define an optimal template for replication might constantly be modified by contingent factors. The identification of a template as "optimal" by the central organisation is not described in the model, and it is not clear when, or how, the central organisation might decide that it reached the maximum quality of replication and it is no longer in need of experimentation and acquisition of new information from the field. These areas of uncertainty are troublesome, since a contingency perspective would suggest that the fit between the firm's business model and its environment may influence profitability (Galbraith, 1973, 1977; Lawrence and Lorsch, 1967), and that timely response may be important.

It could be argued that the model of replication presented by Winter and Szulanksi is a sort of "low intensity" form of business model innovation, where the phases of exploration and exploitation alternate each other. The redesign of the template under the pressure of external factors might interrupt the replication phase and activate the need of an exploration phase of a new form of "optimal template". In this sense, despite their declarations, Winter and Szulanksi are still in the field, even though at the outskirts of it, of contingency theory. Even though they pose a strong emphasis on the role of replication in creating competitive advantage for the firm, their dual approach, composed of exploration of the optimal template through experimentation in different local realities, does not subvert the general economic argument, expressed in contingency theory, that market heterogeneities necessitate business model adaptations (Alchian & Demsetz, 1972; Brickley & Dark, 1987). The need for adaptations and its degree of intensity are related to the differences expressed by local markets and the local cultural diversities in management practices. Another argumentation in favour of business model adaptation can be derived from the ecological school of organisational studies (Hannan &Freeman, 1977; Hawley, 1968), which supports the assumption that higher risks of failure occur to firms

that present structures and operations that do not fit with the features of local environments.

There might be different reasons for the lack of adaptation of business models to environmental heterogeneities. Saebi et al. (2016) suggest that the difficulties in adapting business models are related to "managerial cognition", in particular to the interpretation of changes in the environment (Barr, 1998; Barr et al., 1992; Ginsberg and Venkatraman, 1995; Tripsas and Gavetti, 2000). The behaviour of managers is not only influenced by their ability to interpret threats and opportunities that emerge from the market landscape (Dutton and Jackson, 1987; Staw et al., 1981; Barberis, 2013; Kahneman and Tversky, 1979), but also from their strategic orientation that is built upon past experiences, solutions adopted successfully and approaches to problem solving (Day, 1994; Gatignon and Xuereb, 1997; Lant and Mezias, 1992). On the other hand, a positive orientation towards adaptation and innovation of business models, supported by an adequate set of specific capabilities (i.e. dynamic capabilities), allows managers to better adapt their firm's business model to the threats and opportunities (Teece, 2007).

An investigation into the different aspects of business model innovation and the related managerial implications is presented int the following part of this work. Such analysis allows to address the relationship between business model innovation and the organizationals conditions that enable it.

2.2. A Taxonomy of Business Model Innovation constructs

In recent years, business model innovation has received a growing attention from practitioners as well as researchers and academicians. This interest is mostly focussed on the conditions, the processes and the practices of the implementation of the innovation at the business model level within the firm.

Following the works of Wirtz (2000), it is possible to locate the growing interest for business model innovation in the crisis of the new economy bubble. During this period, several companies were forced, by economic downturns, to undergo radical changes in their business model while trimming to stay afloat. In such situation, the term "business model innovation" was associated with radical business model re-orientations and major

changes. Since the year 2000, business model innovation has become a relevant managerial topic also for firms operating in traditional sectors and with well established competitive positions. In fact, the growing competitive pressure brought by globalisation, with new players menacing the traditional market position of the incumbent firms has forced several companies to modify the way through which they create value for the market.

The early efforts of conceptualisation and formalisation of the construct of business model innovation could be traced back to company practices and in the works of large consulting firms such as Deloitte (2002). The early research works that dealt with business model innovation were related to the wider innovation literature (Chesbrough & Rosenbloom, 2002). Progressively, business model innovation has become a separate filed of study from the one of innovation. In fact, a view of business model innovation as the pivotal driver of company's growth and competitive success has gained momentum over time, demonstrating how business model innovation could be applied to all kind of companies and industrial sectors (Budde et al., 2000). In academic literature, business model innovation is more and more described as the way through which leading firms could reshape the competitive rules of the games in their markets or industries (Gambardella and McGahan, 2010).

Although there seems to be a large consensus on the role of business model innovation in determining the competitive success of firms, it is possible to identify several different approaches to the subject. Following the works of Demil & Lecocq (2010), The existing literature on business model innovation could be analysed on the basis of two distinct dimensions:

(i) the definition of a frame of components of the business model that are the subject of the change process and
(ii) the degree of structuring of the way through which business model innovation is put into place.

With regard to the first aspect, it could be argued that the knowledge of business model components and the way of their transformation could be fully evident to managers or it might emerge as a result of a more or less structured phase of discovery and experimentation. In some cases, the clear understanding of the nature of business model

change, and of the components involved in it, might become evident only after the innovation process took place.

The second aspect proposed by Demil & Lecocq (2010) refers to the different level of formalisation of the business model innovation process. In fact, such process could take the shape of an experimentation one, with lots of trial and errors and a very low level of formalisation or, on the contrary, it could be an explicit and planned set of actions carried out by the management team. Exhibit 2.2 presents the different approaches to business model innovation in scientific literature, based on the described dimensions.

Exhibit 2.2: the different approaches to business model innovation

Source: Wirtz, 2013

In quadrant A of exhibit 9, business model innovation is depicted as a trial and error process that allows managers to experience a large degree of freedom in scouting alternatives paths of innovation (Sosna et al., 2010). The transition to the new business model is poorly structured. The fact there is not an a priori definition of the business model

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components, that are subject to the innovation process, is regarded as an enabling factor for the discovery of radically new business models, capable of reshaping the rules of markets and industries (Casadesus-Masanell & Ricart, 2010).

Quadrant B of exhibit 2.2 presents an approach to business model innovation that is very hard to find in literature as it is very hard for a company to adopt a structured approach to innovation that, at the same time, does not provide a previous identification of the business model components that are the object of the innovation process.

Quadrants C and D differentiate one from the other in the way through which business model innovation is carried out by managers. In both cases, business model components are clearly identified prior to the innovation process. The most authoritative exponent of the approach to business model innovation presented in quadrant D is Chesbrough (2006; 2010). Chesbrough (2010) describes the role of business model innovation as a way of extracting value out of technological innovation. In fact, the ability of a firm to innovate is in the resolution of the tension between technological innovation and business model configuration. The economic value of a new technology remains latent until it is transformed into a valuable offer through the configuration of an adequate business model. For this author, the need for business model innovation is strictly related to the advancements in technology:

"In some instances, an innovation can successfully employ a business model already familiar to the firm…In still other cases, though, a potential new technology may have no obvious business model, and in such cases technology managers must expand their perspectives to find an appropriate business model in order to be able to capture value from technology" (Chesbrough, 2010).

Such business model innovation is generated through the reconfiguration or integration of business model components in a way that allows the exploitation of the new technology. Such an activity is hard to plan ahead and could only be achieved through experimentations run by managers.

Johnson, Christensen & Kagerman (2008) formulate a different approach to business innovation, that poses a greater emphasis on the need of structured and explicit processes

to reconfigure business model components. The business innovation process undergoes three different steps:

(i) the definition of the new customer proposition, i.e. the identification of a formula that might offer a better solution customer problems compared to existing alternatives at a given price (Johnson, 2010);

(ii) the transformation of the value proposition into a "profit formula" that defines the way through which revenues are extracted out of the creation of superior customer value;

(iii) the design of the new business model in terms of key resources and key processes and its confrontation with the existing one to evaluate the most fitting innovation path (Exhibit 2.3).

Such path might require: the implementation of the business model through existing organisation, the modification of some of the business model components that could be integrated into the existing organisation design or the creation of a separate business model that can take the form of a totally new business unit.

Exhibit 2.3: the "four box" business model
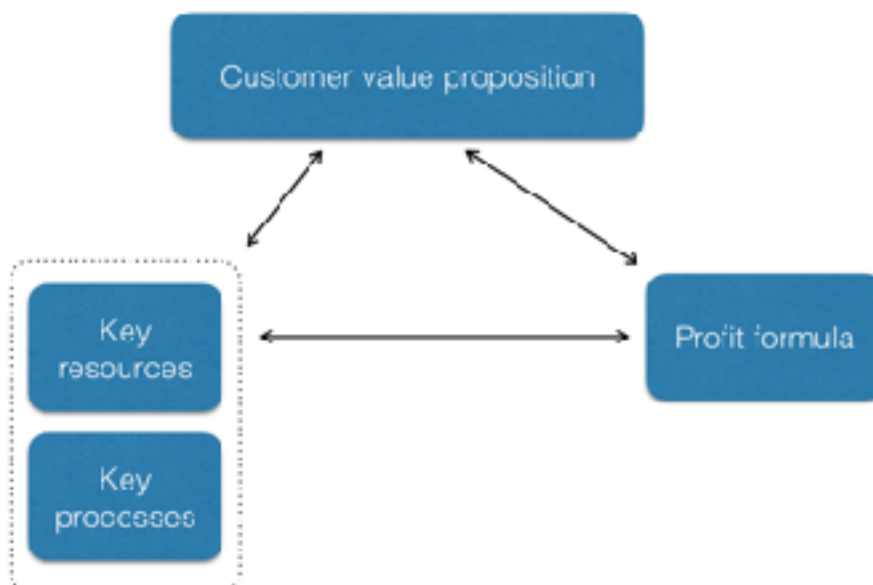
Source: Johnson, 2010

A synthesis of the different definitions of business model innovation by leading authors that could be attributed to the quadrants of exhibit 2.3 is presented in Table 2.2. It is important to highlight that the combination of variables in quadrant B is not take into consideration by any author as it is a combination that is impossible to implant within organisations.

Table 2.2: the different definitions of business model innovation construct

Quadrant	Authors	Definitions
Quadrant A	Demil & Lecocq (2010)	The business model concept represent a transformational approach, where the business model is considered as a concept or a tool to address change and focus innovation, either in the organisation, or in the business model itself.
Quadrant C	Johnson, Christensen & Kagermann (2008)	It is not possible to invent or reinvent a business model without first identifying a clear customer value proposition. Established companies' attempts at transformative growth typically spring from product or technology innovations. Their efforts are often characterized by prolonged developments cycles and fitful attempts to find a market. Their success comes from enveloping the new technology in an appropriate, powerful business model.

Quadrant	Authors	Definitions
Quadrant D	Chesbrough (2010)	Companies must adopt an effective attitude toward business model experimentation. With discovery driven planning, companies can model the uncertainties, and update their financial projections as their experiments create new data. Effectuation creates actions based on the initial results of experiments, generating new data which may point towards previously latent opportunities. And organizations will need to identify internal leaders for business model change, in order to manage the results of these processes and deliver a new, better business model for the company.

The significant heterogeneity among these definitions accounts for the difficulty of finding a common theoretical background for the business model innovation construct. In spite of these evident differences among authors, it is still possibile to find some commonalities that might contribute to the identification of a unifying construct for business model innovation.

A first aspect, that could be derived from these definitions, is the fact that the subject of business model innovation is always the existing business model and the organisational structure supporting it. A second aspect, that offers a common perspective on business model innovation, is the fact that a change in the value proposition is considered a key requisite for the identification of business model innovation. Thirdly, the goal of business model innovation is related to the creation of a sustainable competitive advantage for the company. This advantage might be in the form of a radical change, that might subvert the competitive rules in the market or in the industry, or an incremental change that simply ameliorates the competitive position of the firm within the existing frame of competitive rules.

Having highlighted some possible commonalities between the different approaches to business model innovation, it is now possible to provide a unifying definition of the business model innovation construct.

Business model innovation could be defined as the deliberate design process to create a new business model through a modification of the value proposition in order to achieve a sustainable competitive advantage. Such new business model is designed by altering existing inter or intra organisational systems.

Business model innovation construct might resemble, in some aspects, other sources of innovation as they all contribute to the generation of a new value proposition for the firm with the purpose of obtaining a competitive advantage in the market (Wirtz, 2010). Nonetheless, business model innovation shows some unique traits:

(i) It shows a higher level of abstraction as it encompasses the innovation of the determinants of the others form of innovation, namely product and process innovation that take place at a lower organisational level than business model ones.

(ii) It allows a higher degree of radical innovation in the market since it modifies the conditions for product and process innovation, by providing new ways of extracting value through products and processes. Such new ways of creating value are difficult to imitate by other players that adopt the traditional business model of the industry.

2.3. Types of business model innovation

Business model innovation can assume different forms, depending on the need of the company to adapt to opportunities and threats that emerge form environmental changes. Different environmental conditions need to be matched through different degrees of business model modification. In this context, the identification of the determinants of business model innovation over time is a crucial aspect (Saebi, 2015). In this context, a critical issue is the identification of the competencies that support the firm in progressively adapting to changing scenarios (Doz & Kosoner, 2010; Achtenhagen, Melin & Naldi, 2013).

Saebi (2015) has recently described three archetypes of business model change:

(i) <u>Business model evolution</u>, like the ones that occur during brand repositioning or other initiatives that are aimed at ameliorating the competitive situation of the firm within a given set of competitive rules.

(ii) <u>Business model adaptation</u>, that might take place when the firm grows through the adaptation of existing business model to local competitive or market conditions.

(iii) Business model breakthrough innovation, which occurs when a radical innovation is brought into the market, reshaping customer preferences and changing the competitive conducts.

In contrast with Saebi (2015), who describes such archetypes as examples of business model change, it seems more appropriate, following the definition of business model innovation provided in the previous pages, to classify them as examples of business model innovation since they all imply a change in the value proposition of the firm that drives a modification of the business model components. Business model changes, that occur without a modification of the current value proposition, are supported by fine tuning processes for a better standardisation, replication and maintenance of the existing business model (this aspect of business model change has been presented in previous parts of this work).

The different business model innovation archetypes could be described using several dimensions: (i) the expected output of the innovation process; (ii) the nature and scope of the changes in the business model components (both internal and external ones); (iii) the degree of novelty brought to the firm and the competitive environment; (iv) the frequency of change in business model related to the nature of the innovation process (Saebi, 2015; Robertson, Roberts & Porras, 1993). A more detailed representation of these dimensions in relationship to the different archetypes of business model innovation is depicted in Table 2.3.

Following the elaboration presented in Table 2.3, it is possible to describe the different business model innovation archetypes in a more detailed manner.

(i) <u>Business model evolution</u>: the purpose of this kind of business model innovation is the amelioration of the competitive position of the firm, within the frame of existing competitive conducts in the market. The nature of this innovation is incremental and is linked to a better configuration of business model components around a new value

proposition (repositioning). The degree of novelty for the market and the industry is limited though such innovation might require relevant reconfiguration processes within the organisation. This kind of business model innovation could take place companywide or might affect only one single business units, depending on the nature of the repositioning process. Repositioning is a strategic change that shows a low level of frequency in the firm as it takes a long time to transfer to customers and generate the expected results in a consistent way.

(ii) <u>Business model adaptation</u>. The expected result of this kind of business model innovation is the support of company growth through constant adaptation of business model components to local market characteristics and different competitive environments. The frequency of this kind of innovation could be high, as it depends on the differences expressed by the markets the firm is willing to address. The degree of novelty of the business model could be higher than in the case of repositioning though this is not necessarily a requirement for this kind of innovation. The scope of the innovation is broad, involving several components of the business model with different degrees of radicalness (Duford, Palmer & Benveniste, 2010; Teece, 2010).

(iii) <u>Business model breakthrough innovation</u> aims at introducing disruption in current competitive and market conditions (Voelpel, Leibold & Tekie, 2004). This kind of business model innovation involves a relatively high number of business model components and might result in the creation of a totally new business model. It might require the design of totally new new processes and core activities. This type of business model innovation affects the competitive behaviour of the whole industry, having an impact on the way value is created and delivered. It is not uncommon, for this kind of innovation, to drastically modify the revenue models usually adopted by the other players. The degree of novelty is very high as this innovation brings new rules to the competition and the way customers are served. Showing such a high level of novelty, this kind of business model innovation does not occur frequently in the firm.

Table 2.3: the different archetypes of business model innovation

	Expected output	Nature and scope of change	Degree of novelty	Frequency of change
Business model evolution	Repositioning Change the competitive position of the firm in the market	Existing business model components reconfiguration	Low	Unfrequent Depending on current competitive landscape
Business model adaptation	Align with environment to compete in new markets	Support business model growth entering new local markets	Medium to low	Periodical, depending on the differences in local markets
Business model breakthrough innovation	Drastically change the market and competitive conditions	Involve the whole set of business model components and their configuration	High Radical	Very infrequent for the same company

Following Saebi (2015), the ability of the firm to change its business model when facing environmental challenges is influenced by its current design and existing capabilities. Organizational readiness to business model innovation is a determinant of successful changes in the business model structure and in its components. Such readiness is determined by a set of specific capabilities, namely dynamic capabilities, that define the "capacity of an organisation to propose fully create, extend or modify its resource base" (Helfat et al., 2009). In this sense, the alteration of the existing set of available resources, generated by dynamic capabilities, enables new value creating strategies and the configuration of innovative business models.

2.4. The Dynamic Capabilities Paradigm

Dynamic capability paradigm is relatively new in managerial literature and its origins could be dated in the 1990s, with the contributions of authors such as Teece et al. (1990; 1997), Teece & Pisano (1994) and Teece (1996). The antecedents of this paradigm could be traced back to the Carnegie School works of the 1950s and 1960s, which refer to the behavioural theory of the firm (Augier & Teece, 2009). Simon (1947) and Cyert & March (1963) introduced the concept of bounded rationality that underpins the notion of routine. In the same domain of studies Williamson (1996; 2002) and Nelson & Winter (2002) developed the paradigm of transaction cost economies and the evolutionary theory of the firm. The behavioural perspective influenced the resource based view of the firm (Barney, 1991) and eventually the dynamic capability theory (Pierce et al., 2002). In this perspective, Augier & Teece (2009), highlight a strong link between the behavioural theory of the firm and the dynamic capability paradigm:

"Dynamic capabilities can perhaps be viewed as the 'new' behavioural theory of the firm extended to recognise the importance of intangible assets, outsourcing, offshoring, and rapid change."

The resource based view of the firm investigates how firms achieve their competitive advantage and sustain it over time (Barney, 1991; Nelson, 1991; Penrose, 1959; Prahalad & Hamel, 1990; Teece et al., 1997). This theoretical framework defines firms as bundles of resources that could be human, physical or organisational assets that the firm can use to create a competitive advantage. This set of resources differ from one company to the other and show a certain degree of persistence over time (Eisenhardt & Martin, 2000). Firms with unique, difficult to replicate, valuable resources can achieve a sustainable competitive advantage through the conceptualisation of value creation strategies and the design of business models that cannot be replicated by other players in the market (Conner & Prahalad, 1996; Peteraf, 1993).

This field of studies has recently been enriched by the contribution of authors such as Teece et al. (1997) who focussed their attention on the role of capabilities in determining company growth in dynamic markets. In such kind of markets, firms can create a sustainable competitive advantage through the identification, design and exploitation of a

set of specific capabilities that go under the name of dynamic capabilities. Through such capabilities, managers can integrate, build and reconfigure internal and external competencies to address rapidly changing environments (Teece et al., 1997). In such dynamic markets, knowledge resources play a crucial role and their modification over time can lead the way to the creation of competitive advantages for the firm. Capabilities operate at organisational level (while skills are embodied in individuals) and could be defined as "routines to execute and coordinate the variety of tasks required to perform the activity" (Helfat & Peteraf, 2003). Capabilities define the rules of conduct and the best practices that have to be adopted by managers, employees and workers.

Following the generic definition of capabilities, dynamic capabilities could be defined as a higher order capacity, helping a firm to integrate, build, and reconfigure internal and external resources to address and influence rapidly changing business environments (Teece et al., 1997). Such capabilities operate at the level of top management team, but they involve the entire organisation.

Collis (1994) introduced a clear distinction between dynamic and operational capabilities. Operational capabilities are the organisational routines engaged in the combination of resources in order to perform functional activities. On the other hand, dynamic capabilities could be defined as the set of routines that deal with change and enable the firm to renew its operational capabilities, in order to create a long term sustainable competitive advantage (Zollo & Winter, 2002). A similar concept is presented by Teece (2007), who describes operational capabilities as the ones sustaining operational efficiency, while dynamic capabilities help sustain "a firm's evolutionary fitness by enabling the creation, extension, and modification of its resource base, then by creating long rung competitive success" (Protogerou et al., 2011).

Despite the fact that several authors provide their own definition of dynamic capabilities, it is possible to identify some commonalities among them. Following the work of Barreto (2010), a comprehensive representation of the different definitions of dynamic capabilities is reported in Table 2.4.

Table 2.4: main definitions of dynamic capabilities

Author	Definition
Teece & Pisano (1994)	The subset of the competences and capabilities that allow the firm to create new products and processes and respond to changing market circumstances
Teece, Pisano, & Shuen (1997)	The firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments
Eisenhardt & Martin (2000)	The firm's processes that use resources—specifically the processes to integrate, reconfigure, gain, and release resources—to match and even create market change; dynamic capabilities thus are the organizational and strategic routines by which firms achieve new resource configurations as markets emerge, collide, split, evolve, and die
Teece (2000)	The ability to sense and then seize opportunities quickly and proficiently
Zollo & Winter (2002)	A dynamic capability is a learned and stable pattern of collective activity through which the organization systematically generates and modifies its operating routines in pursuit of improved effectiveness
Winter (2003)	Those (capabilities) that operate to extend, modify, or create ordinary capabilities
Helfat et al. (2007)	The capacity of an organization to purposefully create, extend, or modify its resource base

Source: our elaborations on Barreto (2010)

All the authors agree upon some common aspect that determine and define dynamic capabilities as construct:

(i) Dynamic capabilities account for the ability of the firm to evolve, innovate and adapt to changing environmental conditions in a purposeful manner;

(ii) Dynamic capabilities allow the firm to modify its existing set of competencies and operational resources;

(iii) Dynamic capabilities affect the ability of the firm to modify its business model to create a sustainable competitive advantage in front of evolving market conditions;

(iv) Dynamic capabilities are a complex set of sub-capabilities or routines.

The different sub-categories of dynamic capabilities have been described and analyzed by several authors providing different approaches to the topic.

Among the most relevant contributions to the topic, Teece (2007) classifies dynamic capabilities as the capacity to (i) sense opportunities, (ii) seize opportunities, and (iii) transform (i.e. enhance, combine, and reconfigure).

"Dynamic Capabilities are the orchestrated and managed clusters of activity that empower and help guide decisions about direction (sensing), that prepare, plan and align stakeholders, engendering organizational readiness for change (seizing), and that actually change the organization so that it can capture opportunities and create value through efforts to mitigate risks (transformation). Given this understanding, dynamic capabilities can be understood to empower strategy execution, to helping inform and make precise decisions about what to do (direction and vision) and increasing the organization's readiness and ability to achieve it" (Teece, 2007).

(i) Sensing capabilities refer to gain knowledge about the external and internal environment and make decisions about strategic directions. Sensing involves the scanning of internal and external environments. As for as the outside the organization is concerned, sensing is an entrepreneurial set of dynamic capabilities that account for the ability of the firm into gaining knowledge about competitors, exploring technological opportunities, probing markets, listening to customers or suppliers, identifying and selecting new product and service opportunities. Sensing capabilities involve activities that create a culture of open communication, and knowledge about the organization's readiness to capture value. Seizing involves mobilizing and inspiring the organization and its stakeholders to develop organizational readiness to capture the opportunity. Strengthening ordinary capabilities and establishing best practices can strengthen readiness.

(ii) Core seizing activities include the development of the business case, its communication within the organisation and to external stakeholders, raising capital, planning to execute the strategy and the implementation of organizational or business model innovations.

(iii) Transformational capabilities are the routines designed to sustain strategic relevance in changing markets through continuous alignment and realignment of tangible and intangible assets. Teece uses the term "reconfiguration" to refer to adaptation and repurposing capabilities (sometimes achieved through recombining existing resources) as external or organizational realities change.

Protogerou et al. (2011) ideatefy three sub dimensions or processes that could define dynamic capabilities: (i) coordination and integration; (ii) learning; (iii) reconfiguration.

(i) <u>Coordination and integration capabilities</u> define the way in which the firm evaluates the quality of present resources and integrates them in order to create new capabilities. Coordination and integration capabilities allow the firm to identify and exploit the capabilities that show a high value-creating potential in dynamic and changing environments. Following the works of Sanchez & Heine (1996), it is possible to describe such set of high order capabilities as involving the processes of: data and information gathering and integration, decision communication, and consequent resource allocation.

(ii) <u>Learning capabilities</u> provide the adequate organisational agility and readiness to support innovation processes. Through this set of capabilities the firm explores new ways of creating sustainable value trough the exploitation of the existing set of resources (March, 1991). Learning capabilities take place at the organisational level, integrating individual knowledge and insights and they represent the ability of the firm to develop learning paths aggregating individual knowledge ant turning it into a valuable organisational resource.

(iii) <u>Reconfiguration capabilities</u> are the ones that enable the firm to provide a strategic competitive response to environmental dynamics. Such sub-set of capabilities is strictly related to the activity of identifying emerging opportunities and configure business model components to fit with them.

Eisenhardt & Martin (2000) identify three key routines that belong to the dynamic capabilities of the firm: (i) resource integration; (ii) reconfiguration of resources and (iii) gain and release of resources.

(i) Resource integration is related to the ability of managers to put together and combine different set of skills, as well as functional and operational knowledge to support value creating processes such as new product development or service design.

(ii) Resource reconfiguration refers to the firm ability of recombining pre-existing knowledge-based resources into new processes. Replication and knowledge brokerage are the key routines that allow managers to perform reconfiguration within the organisation. In this domain, resource allocation is defined as the set of routines that enable the distribution of limited and scarce resources from key central parts of the organisation to the peripheral ones. This allocation activity is not merely distributive in nature as it encompasses the routines devoted to the connection of of different parts od the organisation and their skills and resources into collaborative webs of relationships.

(iii) Other dynamic capabilities could be grouped under the category of gain and release of resources. The creation fo new set of knowledge that permit the organisation to develop new thinking is port of this sub-set of capabilities. The reconfiguration of organizational boundaries through processes such as the ones related to strategic alliances and resource acquisition from external sources (Capron, et al., 1998; Gulati, 1999; Zollo and Singh, 1998).

Following up on the previous contributions, it is possible to provide a comprehensive definition of the sub-set of dynamic capabilities that encompasses the different approaches presented in these pages. Dynamic capabilities are divided into organisational routines that allow the firm to evolve and innovate its business model, facing environmental changes, in both a reactive and proactive manner. Such routines could be clustered into three different domains: (i) insight identification and comprehension; (ii) business model components reconfiguration skills; (iii) overall organisational readiness and agility.

(i) Insight identification and comprehension capabilities are the ones that support the ability of the firm in scanning the environment. Insight collection and understanding at the organisational level is one key aspect for driving change in the firm. Managers (and especially top managers) should be able to perceive emerging patterns in the

competitive landscape and turn them into business opportunities. Their skills are not only related to information gathering and selection, but also to the interpretation of such information in a way that permits the firm to evolve, or innovate, creating new competitive advantages over the other players in the market.

(ii) <u>Business model reconfiguration capabilities</u> allow the firm to organise for the creation of new value for the market, following the identification of business opportunities. This implies that managers should know the business model components, and how they could be organised differently, to face new challenges and opportunities. In reconfiguring activities, managers should envision the emerging business model and the way it reshuffles existing components, but they should also define the allocation of resources, skills and assets in a way that allows such business model reconfiguration to be felt with in an efficient way.

(iii) <u>Readiness and agility capabilities</u> should be distributed at all organisational levels as they allow business model innovation to take place without slowdowns and inefficiencies. Such sub-set of competencies is related to way transition processes are organised, to the role of organisational culture in the transitions and to the ability of people in reconfiguring their roles, tasks and skills depending on the business model reconfiguration pattern.

It is possible to argue, following the work of Saebi (2015), that dynamic capabilities play a different role and are performed differently depending on the nature of the business model change that they are supporting. Saebi (2015) proposed a different set of routines depending on the nature of the business model change: evolutionary change capabilities; adaptive change capabilities and innovative change capabilities.

The definition of business model innovation prosed in this work varies from the concept of business model change proposed by Saebi (2015). This change in the definition brings in a different interpretation of the nature and role of dynamic capabilities. Business model innovation is a more stringent construct that the one of business model change. Such fact implies the existence of a different intensity of similar phenomena more than the existence, or co-existence, of several different phenomena. It is then possible to argue that dynamic capabilities retain their characteristics as construct but operate differently, depending on the nature of the business model innovation that they back-up (Table 2.5). In this sense, the operationalisation of business innovation that takes place through the creation of routines, organizational structures and adequate organisational culture needs an adequate

set of dynamic capabilities that might fit with the nature of the business model innovation that the firm intends to adopt.

Table 2.5: the different role of dynamic capabilities in business model innovation

	Business model evolution	Business model adaptation	Business model breakthrough innovation
Nature of the innovation	Existing business model components reconfiguration to gain a better competitive position on existing market	Support business model growth entering new local markets, adapting to local competitive and market situations to preserve the competitive advantage derived by the value propostion	Involve the whole set of business model components and their configuration to bring to the market a breakthrough innovation capable of rewriting the existing competitive rules

	Business model evolution	Business model adaptation	Business model breakthrough innovation
Sub-set of dynamic capabilities that are activated	Insight identification and comprehension is focussed on the identification of possibile brand repositioning in present market and competitive conditions. The reconfiguration of business model is partial and relies upon existing set of skills and knowledge. A crucial aspect for the success of business model innovation is the ability of the organisation in realigning to new positioning and brand values and meanings, as well as product and sercvice innovation that might be brought by the repositioning strategy	Insight identification and comprehension is related to the ability of the firm in preserving the differentiating value proposition though adapting to local market tastes and preferences. The reconfiguration of business model is crucial as it is needs a constant adaptation though preserving a high level of efficiency. The reconfiguration is supported by a high level of skills in the combination of existing building blocks in relatively different ways depending on the local situation. This capability of constant reconfiguration allows the firm to follow the adaptation strategic path. Agilty as well as readiness are crucial for the success of this kind of innovation as the firm is solicited to change or adapts its business model often, following the pace of growth.	Insight identification is crucial to this kind of business model innovation as it allows the firm to explore new domains in terms of customer preferences and value proposition. Business model components are redesigned and this process calls for a radical shift from traditional business model for the industry. Agility and readiness to change are determinant for the success of this kind of business model innovation though the frequency of change is very limited over the company life cycle.

	Business model evolution	Business model adaptation	Business model breakthrough innovation
Core sub-set of dynamic capabilities to allow the innovation process	The key routine that enable the innovation is the one of organizational readiness and agility that enables the firm to rapidly adapt to the value proposition brought by repostioning.	The readiness and agility sub-set of dynamic capabilities is the most solicited by this kind of business model innovation as the business modifications are very frequent and the firm should adopt a process of constant re-invention of the business model components in the face of local tastes and market characteristics.	Insight identification and comprehension set of dynamic capabilities is the most critical one as it allows managers to envision a completely new pattern of growth and competitive success. Business model reconfiguration might be radical but its frequency is limited over time.

In the case of business model evolution, as it takes place through brand repositioning, the ability of the firm to identify a proper insight to support the innovation relies upon a set of knowledge, which is related to present market and competitive conditions. This set of knowledge might already be well established within the firm. In this case, managers devote a lot of efforts in its reinterpretation more than in searching new sources of information or scouting unknown parts of the market to identify differentiating options. At the same time, repositioning tends to preserve the business model components and works more on their combination and priority than on the creation of new ones, or establishing radical innovation in their functioning. Repositioning has often to deal with the creation of a new meaning for an existing offer, in order to place it in a more favourable position in the mind of the customers. The dogmas and meanings that are related to the identity of brands within organisations are a critical aspect that might cripple down the whole repositioning strategy. Readiness to embark in a new perspective, in relationship to the value creation process and the new positioning of the offer, is then crucial for the success of this kind of business model innovation.

Business model adaptation is an innovation path that requires frequent adaptations of the business model components, in an attempt to fit local market tastes and preferences. The innovation rate is frequent, as it follows the path of growth adopted by the company. The understanding of local tastes is crucial to identify which parts of the business model might be modified to permit local adaptation. The way the different parts of the business model are reconfigured during the growth of the firm is a crucial aspect in shaping the quality of this innovation process. Adaptations that put in danger the efficiency of the business model, as well as the ability of the firm to control the quality of the different business model components might reduce the speed of growth and even put in danger the firm economic results. In this sense, dynamic capabilities should allow the firm to progressively reconfigure business model components, without loosing efficiency and control over time. Due to the frequency of this kind of business model innovation, organizational readiness and agility are key factors enabling such kind of innovation. Such readiness is achieved through proper organisational routines, an open and project-based culture and the reduction of functional barriers in the innovation process.

In the case of business model innovation driven by breakthrough innovation, all the sub-sets of dynamic capabilities are crucial for the success. Managers and particularly top managers, should be able to foresee the weak signals that show the potential for a radical change in the market conducts and the creation of a new value proposition. The resistances within the organisation might be strong and a high level of agility is required to adapt to the radical reconfiguration of business model components. This reconfiguration might require the creation of new components as well as the elimination of some of the existing ones.

Part Two: Dynamic Capabilities as Support to Business Model Innovation: Evidence From Case Studies of Meaning Based Innovation

Chapter Three: Research Focus and Methodology

Innovation is considered a crucial aspect of company's growth, both by practitioners and academics. Innovation could be defined as a change in an organisation characterised by the following features: relative advantage, compatibility, complexity, trialability, and observability (Rogers, 1995). In other words, innovation is a worthwhile source of advantage and of competitiveness, oriented to improve company's performance and reduce risk (Pietrobelli & Rabellotti, 2011; Rabelo & Speller, 2005; Chen & Jaw, 2009; Berghman et al., 2013). There are several types of innovation presented in managerial and entrepreneurial literature, all have an impact on products and services, processes and business model (Baregheh et al., 2009).

Though the importance of innovation is clearly recognised by firms, they often show a narrow perspective when ti comes to the different domains of innovation (Sawhney et al., 2011). This is particularly true for business model innovation. As presented in the previous chapters of this work, business model has been, for long, associated to technology, in particular with the digital ones. Business model innovation, as well, is often presented as tightly linked to break-through digital innovations. Such is the case of the business model innovations presented by Osterwalder & Pigneur (2009), from ling tail business models to freemium platform ones. Chesbrough (2002), at the same time, suggests a strong cause-effect relationship between business model innovation and technological developments.

Despite this strong focus on technology as a driver for innovation, innovation might take place in the domain of social and cultural meanings that could be attributed to brands and companies, in a way that sets off from traditional offers. The proposition of authenticity, heritage, local cultures, are all aspects that could be included in the design of innovative

value propositions that foster changes at all the different levels of the organisation and might dramatically modify business models and the way they are configured.

3.1. New meanings as source of innovation

The sources of innovation related to the proposition of new set of meanings for consumer's attention and purchase are apt to intercept contemporary consumption patterns. In contemporary markets, in fact, the consumption process goes beyond the simple functional satisfaction to become strongly meaning-based. Since brands and their value propositions are considered symbolic resources supporting the construction and definition of customers' identities (Elliot and Wattanasuwan, 1998) they play a crucial role in fostering innovation driven by meanings within the firm.

Consumers are engaged in symbolic projects (Elliot and Davies, 2006), configuring identities in transformation out of symbolic materials where brands play the most crucial role. The cultural meaning of brands is not located within the marketing departments, but is placed in the culturally constituted world. Such world includes the whole organisation, its business model and competencies as well as a whole set of actors and relationships that are located   outside the organisation and its marketing efforts (Goodyear, 1996). Companies re-interpret this meaning and, together with other social pressures and phenomena, embed it in products, services and brands for individual acquisition and consumption.

Consumers are engaged in symbolic projects (Elliott and Davies, 2006), defining and maintaining identities in transformation. Authors such as Featherstone (1991) support the idea that a new form of identity is emerging in consumers cultures: "The Performing Self which places greater emphasis on appearance, display and the management of impressions". More recently, the idea of a consumer characterized by a constant quest for identity transformations has been expressed by McCracken (2015). This search for new transformational values is enhanced by:

(i) deep cultural changes in society. As stated by Firat et al. (1995) "The ability and willingness to (re)present different (self-)images in fragmented moments liberates the

consumer from conformity to a single image, to seeking continuity and consistency among roles played throughout life, and the postmodern generation seems ready for such liberation";

(ii) technological innovations: "…New technologies also allow the establishment of new, more participatory on line experience. It was now possible for people to 'become someone else' on line" (McCracken, 2015). In this ever changing scenario, where consumption practices are tightly linked to deeper cultural and individual dynamic meanings, the role of brands becomes increasingly and dramatically complex and articulated.

The increasing relevance of the symbolic meanings of brands is strongly associated with the experiences that occur to customers during rich interactions with them: experiential consumption is tightly related to the notion of consumers manipulating signs and symbols in the marketplace in order to communicate with those around them. Customers interactions with brands are, in this sense, part of a comprehensive conversation about the definition or modification of self: the growing demand for authenticity (often interlaced with the notion of heritage) in brands and products could be explained by the need of customers to define "real" or "true" identities: 'People increasingly see the world in terms of real and fake, and want to buy something real from someone genuine, not a fake from some phony." (Gilmore & Pine, 2007).

The introduction of new meanings into the market has an impact on the whole organisation and its processes and might require the reconfiguration of the whole business model or of parts of it. In this perspective, the definition of "brand as company", proposed by Goodyear (1996), could be regarded as the best way for describing the relationships between cultural meanings, innovation and business models.
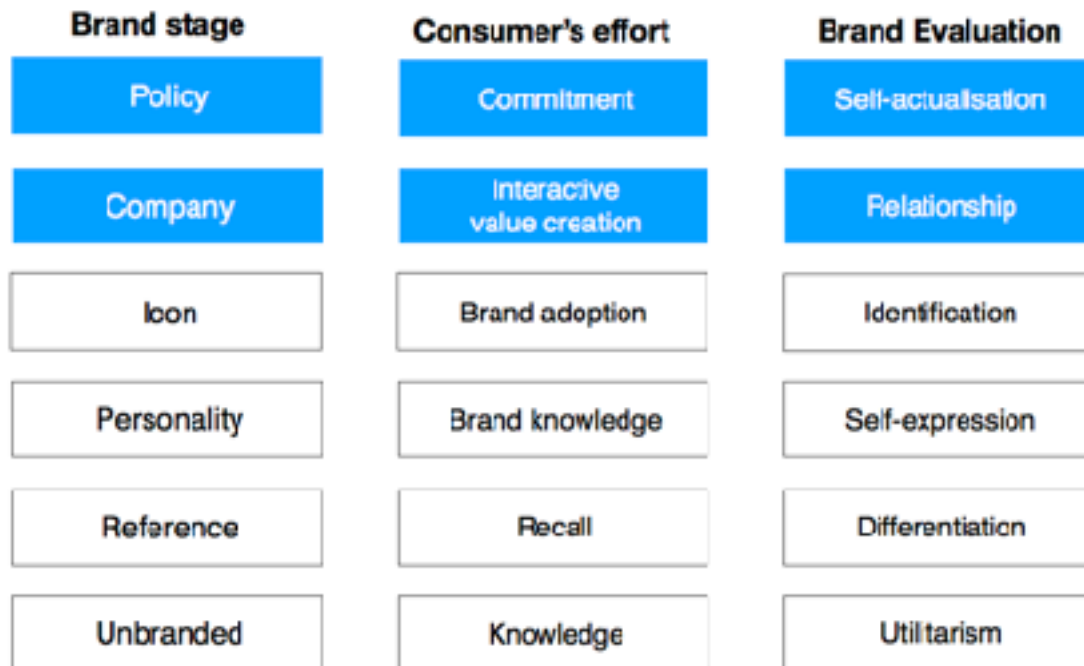
The Goodyear Model

The way brands might affect consumer behaviours is very much dependant on the way brands are created and managed within the firm. The different managerial approaches to branding and their impact on consumer responses are all well depicted in Goodyear's brand spectrum (Goodyear, 1996; De Chernatony et al., 1998). Brand spectrum is a six

stage model, presented in exhibit 3.1, that describes the changes in branding practices over a sort of brand lifecycle.

Exhibit 3.1: Goodyear's brand spectrum

Brand stage	Consumer's effort	Brand Evaluation
Policy	Commitment	Self-actualisation
Company	Interactive value creation	Relationship
Icon	Brand adoption	Identification
Personality	Brand knowledge	Self-expression
Reference	Recall	Differentiation
Unbranded	Knowledge	Utilitarism

Source: our elaborations on Goodyear, 1996

The first three stages of the spectrum refer to an approach to banding that stems out of the marketing department and is strongly influenced by product characteristics and features. In these stages, brans is seen as a tactical tool, which has the purpose of protecting products from competition by exalting their functional and emotional characteristics. Brand personality, that aims at creating an emotional bonding with customers, is generated through the interpretation of product functional characteristics. The three stages that go under the name of brand as icon, brand as company and brand as policy, brands assume to a strategic role within the firm. In this stages they depict a set of values and beliefs that are present in society. This process of interpretation allows the transition of socially situated meanings to individual acquisition through the consumption process (exhibit 3.2) (McCracken, 1986).

Exhibit 3.2: the location of meaning
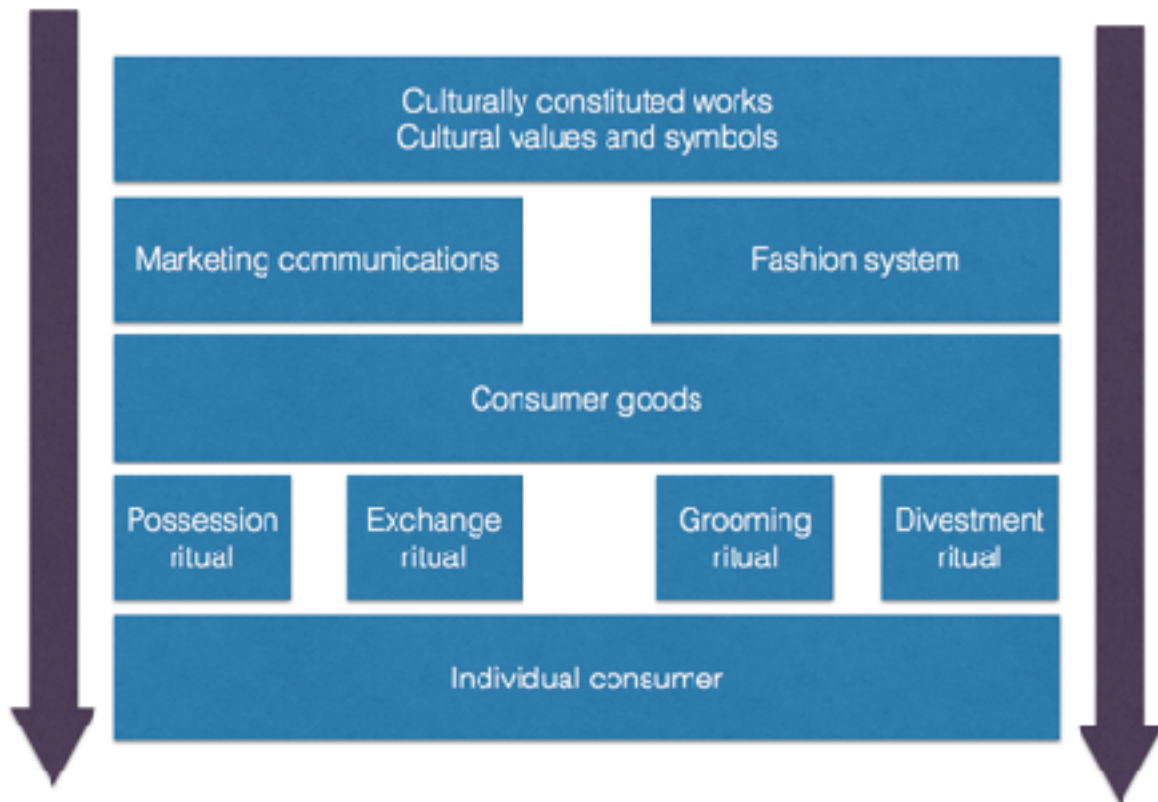
Source: McCracken, 1986

Smith (2007) defines this resonance between brand identity (essence and core values, mostly) and the memories and cultural projects of individuals as Individual Brand Congruity. Cosnumers feel that brands become integral to the expression of their individuality, lifestyle and notion of self (Dahlen et al., 2010). With particular reference to the brand as company stage, there is a radical change in the way relationships between brands and commoners are created. In this stage, in fact, the whole organisation and its stakeholders are engaged in the co-creation of the brand meaning. A deeper and wider engagement of all employees, at all levels, in the communication and relationship process is typical of this stage (King, 1991; de Chernatony & Harris, 2000).

At the same time, brands, as the ones depicted in the brand as company stage, affect the way business models are configured. In order to develop a strong and immersive

relationship between brand and customers, based upon socially situated meanings, a deep reconfiguration of business model elements is crucial.

3.2. Rich Brand Narratives and Business Model Innovation

Despite the large number of contributions on the subject of brands as agents for customers' transformations through their engagement in rich narratives (Gilmore and Pine, 2007; Hirschman, 2010; Woodside, 2010; Sachs, 2012) there is a very poor literature on the organizational implications of the adoption of a value proposition based on rich narratives. In particular, it is possible to agree with the assumption that this kind of innovation might affect the way business models are designed and requires the intervention of a specific set of (dynamic) capabilities to allow the organisation to adopt the new value proposition and implement it.

The nature of business model changes generated by the adoption of a value proposition based on rich narratives and culturally rooted meanings could be clustered into three separated families, characterised by the intensity of the impact on present business model and the organizational implications underneath it:

a) Brand repositioning based on heritage: while maintaining several aspects of present business model, the organisation defines its new value proposition by enriching present brand with new associations related to the mythical origins of the founder. This process of innovation through the reinterpretation of the past is common in fashion (successful examples are the ones of Burberry and Gucci that where brought back to success through the reinterpretation of their roots) and in luxury sectors (the image of the founder plays a crucial role in defining the cultural meaning of brands such as Ferrari in car manufacturing or Patek Philppe in watch making). The adoption of heritage as value proposition requires a reconfiguration of several business model components. In particular, a redesign of the manufacturing process is mostly needed to incorporate heritage in present products. At the same time, it is required a shift in the go-to-market processes so that the heritage of the brand might become something perceived as valuable and worth to commit to by customers.

b) <u>Business model adaptation related to the exploitation of local cultures, authenticity and craftsmanship</u> as value proposition. The offering of local products that represent local cultures and attitudes is a way of connecting customers to communities (either their own or new ones), to local roots and to develop a different perspective on the meaning of the products that are consumed. This value proposition requires a constant adaptation of many parts of the business model (e.g. suppliers' relationships, adaptation of messages to allow a full understanding of the value proposition in different cultural contexts, distribution network) to allow a constant and profitable growth while aligning with the changing environment (Saebi, 2015).

c) <u>Business model innovation through the revolution in the meanings associated to a product, a service or a category</u>. The main goal of this kind of innovation is the one of shaping markets through the introduction of new competitive rules (Markides, 2006; Voelpel et al., 2004). The process of business model innovation affects many aspects of the existing business model and involves the reconfiguration of core activities and processes and, in many cases, the creation of new ones. In this sense, the radical modification of the meaning and usage of a product requires that the organisation modifies many aspects of the business model, from the selection of the intermediaries to the core services supporting the product to the role of new forms of influencers to support the new product narrative.

In all these three families of business model innovation induced by the introduction of new meanings in the value proposition, it is of the utmost importance to identify the organisational conditions that allow the company to migrate from present to future business model and create an adequate internal culture. This culture should fully understand the implications of meaning based value propositions and turn them into a code of conduct and organisational rooutines. Dynamic capabilities are, in this context, one of the key enabling factors for business model transformation driven by meaning enriched value propositions.

The existing literature highlights the relevance of dynamic capabilities for the introduction of company innovation (e.g. Eisenhardt & Martin, 2000; Lawson & Samson, 2001; Zahra & George, 2002; Salunke et al., 2011), with a special focus on the introduction of new technologies, products or processes. There is still a very poor research interest on the role of dynamic capabilities backing up business model innovations that are not driven by technological break-throughs, as it is the case of meaning driven business model

innovation. In spite of this gap, authors think that the investigation of business model innovation in this domain might be relevant from a research as well as a practitioner point-of-view for several reasons:

a) Authenticity, heritage, local cultures, craftsmanship and traditional processes are all aspects that characterise the value proposition of many companies in contemporary markets: from fashion, to food, from design to leisure services and tourism. Despite this relevance, there is still a very modest understanding off the business model implications of such kind of innovation and of the capabilities supporting it.

b) It is often argued that the innovation through enriched meanings is in the hands of designers and creative directors but the business model implications of such an innovation cannot be underestimated. The lack of organisational readiness and the rigidity of business models have often vanished the most spectacular efforts in terms of design and fashion solutions.

In order to tackle this research objective, a thorough literature review has been performed whereby the main contributions to develop the conceptual framework for meaning based value proposition, business model innovation and dynamic capabilities have been identified. Besides that, an in-depth set of case studies of companies that went through a meaning based business model innovation has been realised, with the aim of exploring the applicability of the conceptual model in practical contexts.

3.3 Research design

A case-based methodology has been selected according to the exploratory nature of the study. This methodology is appropriate to describe and explore new phenomena or to build up new operation management theories (Voss et al., 2002), In particular whether the boundaries between the context and the phenomenon are not clear (Yin, 2003). Furthermore, case studies have interpretative advantages which are useful in the explorative phase of a study (Larsson and Lubatkin, 2001).

3.3.1. Case study methodology

Case study methodology allows a holistic investigation of a phenomenon (Feagin et al., 1991). Stake (1995) e Yin (2003) relate case study methodology to the constructivist paradigm. Constructivism defines reality as social construction (Searle, 1995) and, in this sense, it poses the question of the role of the observer in determining the outputs of research processes (Baxter & Jack, 2008). In case study methodology, researcher and participants work in a collaborative way: the participants tell stories related to the different phenomena that are the object of the research (Crabtree & Miller, 1999) and such stories enable the researcher to understand participants' perception of reality as well as gain a clear vision about their actions (Lather, 1992; Robottom & Hart, 1993). Case study methodology could be applied under the following conditions: (i) it is important to analyse a phenomenon in real-life context; (ii) the boundaries between context and phenomenon are blurred and impossible to determine in an accurate manner before the research (Gibbert et al., 2008).

Case study methodology enables researchers to gain an access to a wide and rich number of information and details by using multiple sources of data (Tellis, 1997). Payne & Payne (2004) describe the case study methodology as the one that generates a detailed study of a single social unit. In this sense, a case study could be the one of a social process, an organisation or any other form of collective social unit (Myers, 2013). Case study research, in fact, uses empirical evidences derived mostly from interviews, documents and artifacts generated by organisations and social groups, in an attempt to study a phenomenon or matter in its own context (Myers, 2013). Sjober et al. (1991) define

the unit of analysis of case study as: "an individual, a community, an organization, a nation-state, an empire or a civilisation".

Following the approach to this methodology, developed by Yin (2003), case studies could be clustered into different types, that show a variation in the goal and in the methodology (Table 3.1). Exploratory cases can help the researcher in drawing the premises of future researches, while the explanatory cases can help in casual investigations. Descriptive cases, on the other hand, show the application of an already developed theory and its implications. Multiple case studies are used when the researcher needs to develop a deep understanding of the different applications of the same phenomenon.

Table 3.1: a definition of the different types of case studies

Type	Description
Explanatory	It explores the presumed casual links in real-life interventions that are too complex to be dealt with experimental strategies
Exploratory	It analyses interventions where the outcomes are not clear to determine ex ante or might be more than a single one
Descriptive	It descries a phenomenon in real life context
Multiple-case study	Ie enables the researcher to draw differences and similarities between different cases of the same matter

Source: our elaborations on Yin (2003)

Single or multiple cases can be used to confirm or challenge a theory or with the intent of revealing a matter that was not accessible before. Multiple case studies might follow a replication logic, maintaining the same research design and methodology and analyzing units that show similar traits. Despite multiple-case studies might adopt the replication

approach, every single case study in the research should be considered as a "stand alone", complete one, in which data are gathered from different sources and the conclusions are derived from the facts observed.

Stake (1995) and Yin (2003), as well as several other authors that belong to this field of studies, agree on the fact that case study research could not be defined as a mere sampling one. In fact, the selection of cases should be approached in a way allowing the researcher to maximise the take outs during the time of the study. The selection of cases might take place in different ways (Eisenhardt, 1989):

(i) <u>Sampling from chosen population</u>. This method reduces the interference of factors brought by external forces and, at the same time, better defines the scope and the domain of the findings.
(ii) <u>Theoretical sampling</u>. This method selects cases depending on theoretical needs and reasons and not statistical ones (Glaser & Strauss, 1967).

In case study methodology the number of cases is usually limited; this condition might suggest the selection of the cases depicting extreme or "polar" situations (Pettigrew, 1988). Even though the analysis of "extreme" cases permits a richer observation of the phenomenon of interest, it is also relevant to select cases that might permit to replicate or extend theory, especially the emerging ones (Harris & Sutton, 1986).

Case studies are selective in nature, as they focus on a limited number of issues that explain mostly of the system taken into exam. In order to provide the richest vision of the issues analysed, multiple sources of data are used. The integration of different research data, of different subjects investigating the subject and even different methodologies account for the concept of triangulation. Triangulation is the way through which the validity of research process is achieved. Denzin (1984) suggests the existence of four different types of research triangulation:

(i) data source triangulation;
(ii) investigator triangulation;
(iii) theory triangulation;
(iv) methodological triangulation.

Triangulation provides construct validity through the multiple sources of evidence as well as the specification of the unit of analysis (Levy, 1988; Yin, 2003; Tellis, 1997).

Furthermore, the design of a case study protocol is required in order to guarantee the internal and external construct validity (Exhibit 3.3).

Exhibit 3.3: case study methodology and design
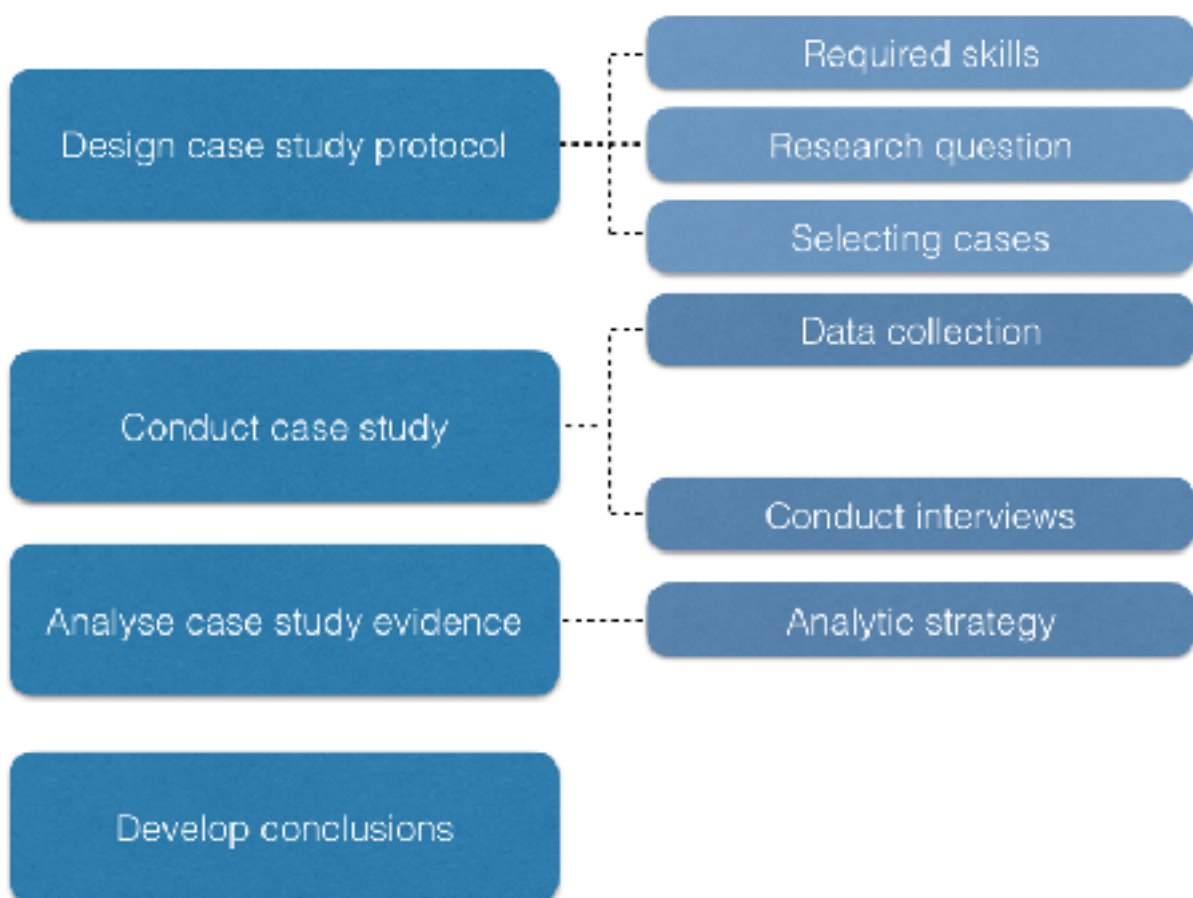
Source: our elaborations on Tellis (1997)

Protocol design should be made up of several sections, covering the following aspects:

(i) An overview of the case study project, including goals, issues and expected take-outs;

(ii) The set of procedures that are going to be adopted for the case study deployment;

(iii) The research questions that are meant to be at the roots of the case study;

(iv) The format that is intended to be adopted for the case study report. Due to the heterogeneities, in terms of goals and methodologies, that characterise the case study methodology, there is no such thing as a standard format for case study reports: case studies might be different in nature one from the other.

Case study procedures are designed to permit researches to clarify the research questions and determine the level of control over the observed behaviours and the events. At the same time, such procedures help researches in narrowing down their research questions, contrasting with the tendency, in such kind of research, of creating wide research questions that are then difficult to deal with during the research (Baxter & Jack, 2008). Yin (2003) as well as Stake (1995) provide several methods on how to bind a case through the definition of different set of possibile boundaries such as: (i) time and space (Creswell, 2003); (ii) time and activity; definitions and context (Miles & Huberman, 1994).

Case study procedures involve the preparation for data collection, the distribution of questionnaires or the conduction of interviews. Data collection, in case study methodology, is a critical research design issue as it has a direct impact on the overall research validity. The operational data could come in different forms and might require different ways and methods for collecting them. Yin (2003) identifies six sources of evidence:

(i) Documentation;

(ii) Archivial records;

(iii) Interviews;

(iv) Direct observation;

(v) Participant observation;

(vi) Physical artifacts.

In a similar way, Van Maneen (1979) describes the category of operational data as composed of conversations, activities and documents. In case study methodology, there are no better sources of information compared to others and, on the contrary, it could be argued that the quality of the research output is heavily dependent on an adequate level of complementarity that by itself guarantees a better understanding of the phenomena observed.

On the whole, sources such as archival records and documentation should be used to corroborate the findings from the other sources such as interviews. Interviews might come in several forms, depending on characteristics of the research questions, the unity of observation and the nature and purpose of the overall data collection process. Broadly speaking, interviews might be clustered into three categories: open-ended; focussed and structured.

Direct observation occurs when the researcher makes on site visits to gather data. Observation might happen in a casual or formally structured manner and, in order to guarantee a higher level of reliability in the collection of data, several researchers might be employed on this task. Participant observation is the only observation technique that enables the researcher to directly take part in the events that are the object of the study. This methodology for data collection is very common in anthropological studies. Artifacts collection during site visits might be another source of information providing physical evidence for the research.

Despite the source and method of data collection that is chosen by the researcher, there are sone key principles and recommendations, in the process of data collection, that should always be applied (Yin, 2003; Tellis, 1997):

(i) Researcher should use multiple sources of data to guarantee triangulation;
(ii) Researcher should create a unique database containing all the data collected;
(iii) Researcher should preserve a set of evidences all throughout the different stages of the data collection process.

The analytical strategy is in place during the analysis stage of the research process, when the data and evidences have already been collected through the adequate mix of sources of information. This strategy helps researcher in defining what is going to be analysed and drawing the determinants and motivations of this choice. There are several techniques for the analysis of collected data and information. Yin (2003) and Trochim (1989) suggest different techniques such as: pattern-matching; explanation-building and time-series analysis. Trochim (1989) identifies in the pattern-matching one of the most promising analysis strategy. Such a technique requires the confrontation of empirical patterns with the predicted ones: if they match, the internal reliability of the study is enhanced (Tellis,

1997). Exploratory building technique is a form of pattern-matching that provides an explanation for the case without matching it with previously defined pattern. Time-series are widely used in experimental analysis, where single depending or independent variables could be identified in the research design. In the following pages, research design is presented.

3.3.2. Research questions and methodology

As presented in the first parts of this work, the ability of a company to modify its business model, in order to support the creation of richer customer experiences, depends on the presence and exploitation of dynamic capabilities. It is therefore of interest the reconstruction of the way through which top management teams exploit dynamic capabilities to innovate business models. The kind of business model innovation that seems more promising, in this context, is the one based on the introduction of a new meaning as key component of the value proposition.

This research issue can be turned into the following research questions:

Q_1: Do top managers engage in business model innovation when shaping new meanings for the offer of their firm?

Q_2: Do managers consciously modify business model components to establish new offers based on new meanings?

Q_3: Do managers consciously employ dynamic capabilities to support business model innovation related to the offer of a new meaning?

Q_4: How are such dynamic capabilities managed by the organisational actors involved in the innovation process?

In order to address such questions, a research bases on case studies has been developed with prominent exploratory purposes, together with a preliminary construct analysis (Exhibit 3.4). This approach appears to be extremely valuable given the complex and holistic nature of the research subject. There are non pre-existing researches on this

specific subject and the frame of reference for this research topic is still in an evolutionary stage. Moreover, the need for na exploratory approach to the research is motivated by the fact that the constructs upon which the research is based are at the intersection of different disciplines and field of studies, making it difficult to use an explanatory perspective in dealing with the cases.

Exhibit 3.4: research design
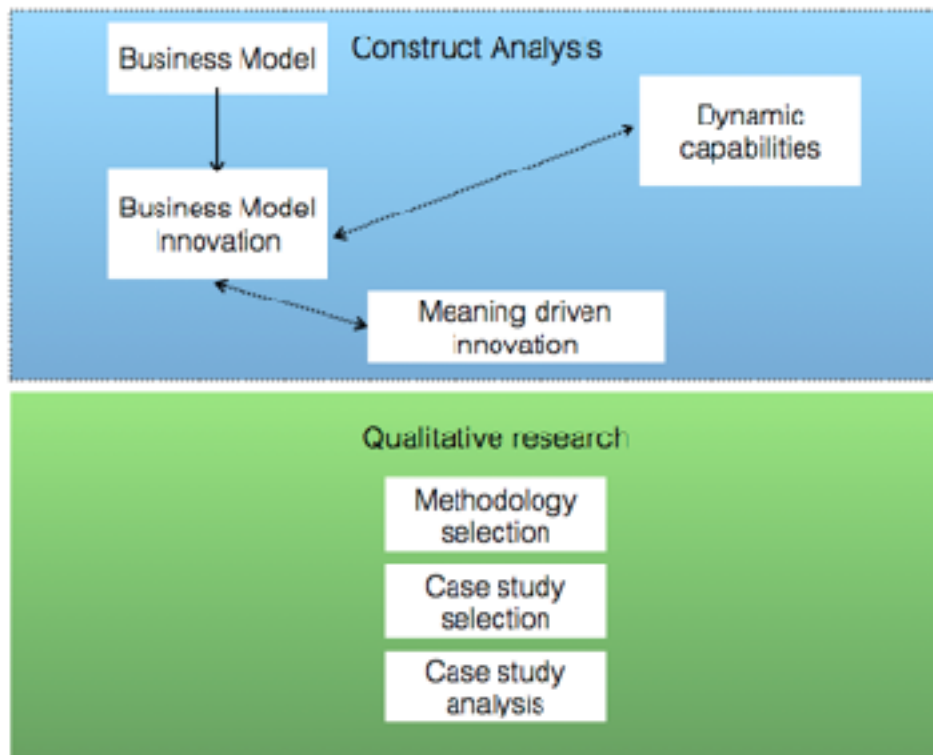
Research conceptual framework is presented in exhibit 3.5. Brand as company approach is the premise to business model innovation and is related to the changes in brand na doffer meaning through the exploitation of heritage, adaptation to local cultures and the creation of a totally new product or service concept. Such changes in meaning have an impact on firm's value proposition and generate different kind of business model innovation. Namely, such business model innovations could be clustered into three archetypes:

i) Business model innovation as evolution from present business model through the reinforcement of present competitive position;

ii) Business model innovation as an adaptation to different local conditions during company growth;

iii) Business model innovation as total business model reconfiguration in the light of a radical meaning based innovation.

Such business model innovations are supported by dynamic capabilities which could be clusters into: sensing, seising and transforming set of routines (Teece, 2001).

A case study approach, with exploratory purpose, has been adopted, using the storyline coding methodology. Three case studies have been developed, analysing actors, processes during the different phases of business model innovation. The expected output of this research activity is a deeper understanding of:

i) the level of modification of business models induced by innovations based on meanings;

ii) the processes, actors and routines that activate dynamic capabilities in meaning based business model innovation.

Exhibit 3.5: research conceptual framework
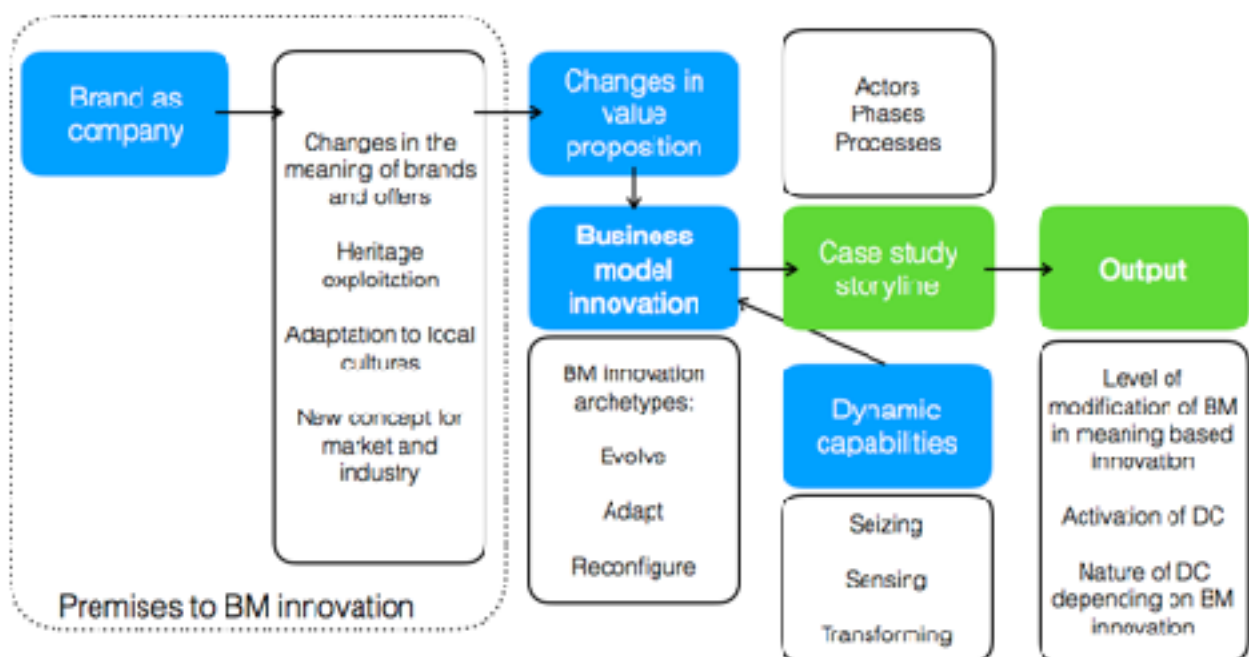
The sample is composed by three different companies, representing the different business model innovations originated by different meaning enriched value propositions: brand repositioning; business model adaptation and disruptive innovation. This sample aims at exploring the applicability of the conceptual model of three business model innovation driven by brand in practical contexts. In this sense, the selection of the cases is based on their relevance and their ability of being "exemplary" for the matter. The cases were not selected using a statistical sampling approach, but rather one based on their individual relevance for theoretical purposes.

The case selection strategy has been driven by the desire of analysing a representative case, of both company and industry peculiarities (Seuring, 2008; Yin, 2003), by using an information-oriented selection approach (Flyvbjerg, 2006). The process of case selection was made up of several stages: (i) market identification and selection;   (ii) category selection; (iii) firm selection.

(i) The selection of markets (or segments of them) was based on the role played by storytelling and brand narratives in driving purchase decisions. In this perspective, high-end and luxury segments show a higher degree of interests from consumers in brand meanings and, consequently, it is easier to identify companies that use meanings as innovation dirvers.

(ii) In terms of category selection, it was regarded as critical for the purposefulness of the cases, the fact that digitalisation played only a marginal role in the innovation process. The innovation process itself was not supposed to be activated by an innovation in digital technologies. The reason for this choice is related to the fact that there is a relevant literature on the relationships between digitalisation and business model innovation. The subject of present research, on the contrary, puts its attention on innovations that do not stem out of digitalisation but that are culturally rooted.

(iii) The identification and selection of the specific three firms was based on their ability to represent archetypical cases in terms of business model innovation as presented in the previous part of this work. The selection criteria were also based on some critical research conditions such as the observability of the innovation process and the access to information and key actors of the innovation process.

The brand repositioning case is the one of Champagne Krug, a French firm, part of LVMH group. Champagne Krug went through a turnaround, with business model reconfiguration, triggered by the reinterpretation of brand's and firm's heritage and the exploitation of founder's myth for innovation purposes. This innovation effort was achieved through the contribution of "informats", such as historians, that helped to bring company roots to new life and created new meaning for employees, stakeholders and customers.

Eataly (one of the most innovative food retailers on the global scene) is an Italian based multinational supermarket chain that transformed supermarket shopping experience into a deep learning and cultural experience for its customers. The assortment is composed in large part of local products and is adapted to the different geographical areas. There is no format for the stores that are selected depending on the relevance of the site as a cultural landmark in different town. The format includes restaurants and courses for customer on food quality and its preparation. The company relies upon the contribution of Slow Food consultant when addressing different geographical areas with different food cultures and local productions to re-configure its assortments consequently.

DG Mosaic is a niche Italian luxury mosaic producer that, through a radical product innovation, totally modified the perception of mosaic and its applications. The innovation, though fostered by a new product concept, is based on a complete change in the meaning of mosaic and the way of using it. DG Mosaic's products could be found on Ferragamo shoes, in yacht interiors and even in courtains and furnitures. The change of destination of this extremely traditional product implied a compete business model redesign with the introduction of new forms of distribution, the involvement of creative communities around the world as brand and product ambassadors.

For pursuing an in depth analysis of the different companies and comparing different internal viewpoints, interviews with the major roles involved in the process of business model change have been conducted. The objective was to interview all the relevant people operating in company's expansion, and collecting also the perspective of all of the roles involved in the significant change in progress. Face-to-face interviews have been preferred as the tool to collect information. A representation of the research data collection process is presented in table 3.2.

Beside semi-structured interviews, data gathering has been performed exploiting different sources (internal documents and official documents), to increase the reliability of data and to contrast information between official and non-official sources. Furthermore, an additional important source of information has been the direct observation in the company. The researchers coded the information collected with a cross verification. First of all, the notes have been collected in a single file, thus avoiding loss of information. The results of the different researchers have been collected and compared, in order to converge towards a common classification of the case study. The final goal of the coding phase was to get an objective view of the case, to reduce the number of data to compare and to arrive to a single and shared description of the single case among all the researchers. Systematic coding has used also to avoid bias and to validate interpretations.

The elaboration of the write-is of the single cases was performed using deductive coding (Miles, Huberman & Saldana, 2014), i.e. a provisional start list of codes that has been prepared before starting the field work. A critical aspect of the coding process is related to the fact that interviews were made in Italian for DG Mosaic and Eataly, while for Krug they were made in French. The elaboration of the write-ups requested a translation into English to create a homogeneous base for further elaborations. Coding has been applied to the English write-ups, with the integration of some words in the original language when translation has been considered as inaccurate or not representing the original meaning.

During data collection, some inductive codes have been added to the deductive ones as new categories emerged from evidences. The use of coding allowed the reduction of large amounts of data into smaller, more manageable analytical units. Coding permitted the creation of matrix display tables for the different cases. Such tables are reported for every case analysed in the next chapters.

Table 3.2: Sources of data and their use in the analysis

Source	Type of data	Use in the analysis
Semi-structured interviews	6 interviews at Eataly headquarters between 2014-2015 5 interviews at Krug headquarters between 2016-2017 4 interviews at DG Mosaic headquarters 2017	Interviews with C-levels or board members aimed at understanding the business model innovation process, the critical phases and the modifications brought to the business model components. This set of interviews permitted to verify if top managers had an idea of the impact of their decisions on business model components and the way they planned to use dynamic capabilities to support the innovation process. Interviews with middle managers, directly involved in the transition form the old to the new business model, aimed at identifying the role of dynamic capabilities routines in supporting the innovation process.
Company publications reports		Tracking of changes in the strategies, actions and performance.
Third party publications and reports		Tracking of changes in the strategies, actions and performance.
In store visits and event partcipations	Eatlay store visits in three different locations Champagne tasting and cave visit event at Krug Milan design Week events organized by DG Mosaic	Reconstruct the narrative of the brand and how the business model components enable the delivery of meaning based innovations.

Chapter Four: Eataly Case Study

Business model innovation and local adaptation: the role of dynamic capabilities in shaping business model components and supporting store openings

4.1. Background

The insight supporting Eataly's value proposition is well described by its founder, Mr. Oscar Farinetti:

"On the whole Italian consumers spend 25% of their money on food, there is a 75% still to be addressed: this is Eataly's challenge".

Eataly's target is a large and growing portion of consumers, in Italy and around the world, that shows a strong interest in food consumption related to local cultures, tradition and heritage, as well as biodiversity. The process of purchasing food has progressively changed over time, with a growing interest for entertaining and enriching purchase experiences. This pattern of purchase and consumption goes under the name of "edutainment". Edutainment could b described as a mix between the need for education as a way of enhancing individual interests and passions and the need for entertainment which is a crucial aspect of contemporary way of living and consuming. In this sense, Eataly satisfies these new set of needs by providing immersive, culturally rooted, meaningful experiences of purchase and consumption of local food, tightly related to local cultures, heritage and traditions. At Eataly's the interaction with food provides not a merely sensorial experience, but a deep learning one.

At the core of Eataly's strategy is the identification of food as a product enriched with deep cultural meanings. In this sense, a conscious purchase of food cannot take place without the transmission of cultural meanings to the customer. This transmission requires a retail formula that stems out as unique in the contemporary retail scenario,

characterised by mass, standardised distribution and the dominance of global brands. Such formula could be summarised in a three step purchase experience: i) learn; ii) eat; iii) buy. Eataly describes itself as detached from low context, need based mass retail formulas such as the ones of supermarkets and hyper-markets: Eataly's retail concept is based on the combination of restaurants, training and education, and shopping to transform food purchase into a rich and culturally engaging experience.

i) "Learn" is the starting point of such experience and it aims at establishing a deep customer relationship with food and store. In fact, Eataly devotes a lot of efforts in providing formal and informal occasions of learning for its customers through communication, events and training activities in its stores. The purpose of such activities is to bring customers to a deep level of understanding of the cultural implications of local food consumption as well as of the role of local suppliers in supporting local economies, traditions, and territory bio-diversity.

ii) "Eat" takes place in store, through the presence of several restaurants and catering services. Eating is a crucial part of Eataly's customer experience. Through product tasting customers complete their "transformation experience" and perceive food under a different perspective, better understanding the cultural implications and meanings underneath its consumption.

iii) "Buy" is related to consuming high quality foods, related to local cultures and productions as an everyday experience for the average supermarket customer. In this sense Eataly's value proposition differ significantly   from the one of luxury food "icons" such as Fauchon in Paris, Peck in Milan, Harrod's Food Court in London or Ka-de-We in Berlin. The assortment of different Eataly's stores is made up of a relevant number of regional and local products. In many cases such products are almost impossible to find in other retailer assortments. This variety in the assortments, related to local tastes and connotations, transforms every single store in a unique experience for customers. This variety is guaranteed by the contribution of local niche products that, in several cases, could account for 70% of the whole store assortment. The selection of these suppliers takes place under the supervision of Slow Food consultants that support Eataly's category management.

Eataly introduced in the market a radically new way of dealing and distributing food. Traditionally food retailers formats could be clustered into two different strategic groups:

(i) Mass distribution supermarket chains that offer low cost, standardised assortments. These chains grow through the replication of standardised retail formats and have their competitive advantage related economies of scale and negotiating opera with suppliers thanks to their economic and competitive power.

(ii) High end food merchants that operate through single "iconic" outlets in very prestigious locations and a select assortment of highly priced merchandise. Such merchants often provide also some sort of restaurant and catering services in their locations. Their customers are very often compered by tourists that visit the store as it is a landmark of the town.

Eataly has identified and eventually occupied a competitive space that is placed between these two different clusters. The traits of Eataly's differentiation strategy (that will be covered in detail in the next paragraphs) could be summarised as follow:

(i) A store format which is a anique combination of restaurants, shopping, education and communication;

(ii) Adaptation of store format to local tastes, cultures and local suppliers;

(iii) Selection of iconic, non standardised, locations that represent a landmark for town inhabitants;

(iv) Adaptation of formats and assortments to the location and not the opposite, as it happens for supermarket chains;

(v) Partnership with Slow Food association to support local selection of products and suppliers as well as to gain a better understanding of local customers' habits and food preferences and traditions;

(vi) Hybrid approach to governance. Eataly international expansion has been characterised by different forms of ownership: from franchising in Turkey, South Korea and the Emirates to a joint venture with B&B for the North American market.

Eataly's retail format and the business model sustaining it, are responsible for the rapid pace of growth of the firm, similar to the one of mass supermarket chains that heavily rely upon templates and replication strategies for growth. Eataly is preserving its deep and engaging customer experience (traditionally a trade mark of high street food retailers), the unique combination of local high-quality products and small suppliers as the key differentiating factor towards competition. Mr. Farinetti often uses the analogy with street markets when presenting Eataly's value proposition:

"Eataly could be described as the modern adaptation of traditional local food markets, full of unique products, colours and perfumes and a lot of rich social interactions" (Nacamulli & Pini, 2014).

4.2. Eataly's competencies building phases

Mr. Farinetti's background as an entrepreneur, as well as its network of relationships established over a long period of time, are at the heart of Eataly's business idea. Before Eataly was created, Mr. Farinetti had been the owner of UNIEURO, one of the largest Italian category killers specialised in consumer electronics.

UNIEURO and the building of entrepreneurial values and competencies

The success of UNIEURO on the Italian market dates back to the 80s, when Mr. Farinetti took the lead of the family's retail business. UNIEURO had been founded in Alba, in the Pedemont Region, in 1967 by Mr. Paolo Farinetti (Oscar's father) together with two other partners. Originally the firm was specialised in selling coffee via mail services. Very soon the offer was enriched through the addition of small household appliances, linens and clothing. In 1975, UNIEURO opened its first brick and mortar store in Alba. In 1978 Mr. Oscar Farinetti joined the family business in 1978 as manager of the household appliance department that, at that time, was the smallest one of the firm but also the most promising in terms of market potential. In the 80s, UNIEURO had a strong pace of growth, fostered by a series of acquisitions of small local retailers and, in 1984, the acquisition of Magazzini MZ store chain. In 1986, Uniero opened the first four stores devoted only to consumer electronics and household appliances.

During the 90s, UNIEURO continued its growth through franchising contracts that permitted to the firm to progressively expand outside the boundaries of the Pedemont region. In the same period, UNIEURO became partner of GRE (Grossisti Riuniti Elettrodomestici), one of the largest Italian wholesale purchase platforms for household appliances. In 1995 UNIEURO acquired the TRONY retail store chain, specialised in consumer electronics and household appliances, thus becoming the largest Italian retail chain of consumer electronics. In the period between 1995 and 2000 the firm grew

through other acquisitions such as the one of Triveneta and Safra Group, while in the same time the first firm's megastore was opened.

At this stage of the company growth, top management started to focus its attention towards the need of establishing a well-known brand at national level. This brought to the decision of investing a large amount of resources into a national advertising and communication campaign under the responsibility of Mr. Oscar Farinetti. The creative idea beneath the campaign, strongly supported by Mr. Farinetti himself, was to establish a strong relationship in the mind of customers between trust in the future and electronics. The selected campaign slogan claimed that: "Optimism is the perfume of life!" and an exceptional testimonial was selected for the television advertising. The Italian poet Mr. Tonino Guerra, who has worked, among others, with Federico Fellini accepted to be the testimonial and the success of the campaign immediately positively affected UNIEURO's brand equity. Another side effect of the advertisement was the fact that Mr. Oscar Farinetti began to be perceived by the large public as a positive and practical entrepreneur. In 2001 Mr. Farinetti sold UNIEURO to Dixons Group, that is one the world leading chains in retail distribution of household appliances and electronics with over 1400 shop in the United Kingdom and other 300 in Scandinavia, France and Spain).

By the time of the acquisition of UNIEURO, Mr. Farinetti had already developed a specific set of skills and competencies that could be represented as: (i) a deep understanding of the mass retail industry and its key mechanisms; (ii) a strong experience in supporting growth through different forms of governance (from acquisitions to franchising to the participation to wholesale purchase platforms); (iii) an approach to communication based on values and customer education more than on promotions and large assortments.

4.2.1. The relationship with Slow Food and its influence over Eataly's concept

Slow Food is an international organisation with more than 100.000 members and a million of supporters in over 130 countries. Is was founded in Bra, in the Pedemont region, by Mr. Carlo Petrini with the aim of promoting food as an expression of local cultures and bio-diversities in order to contrast the process of progressive homologation and standardisation of food put forward by fast-food restaurants, global supermarket chains and large multinational companies operating in the food and agriculture business. Slow Food promotes several collective initiatives aiming at preserving local food and culinary

cultures. The origin of this organisation could be traced back to the foundation of the ArciGola movement in Italy in the 80s. ArciGola aimed at preserving Italian food heritage and local traditions; its approach was summarised in the slogan: "Food=identity and territory=culture".

The ideological foundations of Slow Food (that has adopted the symbol of a little snail as its logo) are related to two separate cultural areas (Van Bommel & Spicer, 2011):

(i) craftsmanship, local tradition and local tastes;

(ii) sustainability, biodiversity and social justice.

Slow Food has been able, since its early days, to put together and integrate interests coming from several different groups of stakeholders such as small producers and farmers, municipalities and local communities, ecological movements and social movements, hospitality and tourist operators, consumers and the public administration at its different levels. Slow Food is engaged in several initiatives and projects, among the most relevant ones it is possible to highlight:

(i) Arks of Taste: this project aims at collecting small-scale quality productions that are iconic of specific local cultures and traditions aiming at preserving them from disappearing. The purpose of the different Arks is to promote such products to foster consumption or simply activate a narrative process so that these products might be brought pro the attention of a large and global audience. At present Slow Food is worldwide engaged in over 3770 of these initiatives.

(ii) Presidia: the Presidia project, similarly to the Arks of Taste aims at preserving local quality productions. The main difference between these two initiatives is the fact that in Presidia Slow Food plays a larger role supporting local productions as part a larger initiative to protect unique regions and ecosystems.

(iii) 10.000 Gardens in Africa: Slow Food is engaged in sponsoring the creation of 10.000 sustainable food gardens in Africa schools and communities. The purpose of this initiative is to create awareness in the younger generations about the relevance of food biodiversity. At present, the movement has already create 2.685 gardens in differs parts of Africa.

(iv) University of Gastronomic Sciences (Università degli Studi di Sceinze Gastronomiche): located in Pollenza, in the Pedemont region, this university aims at creating and developing professional competencies related to the promoting high-quality local

products at different levels, providing courses dealing with cooking with local ingredients to master programmes devoted to Communication and Marketing of local products and biodiversity.

Together with these initiatives, Slow Food movement organises several events al local, national and global level, devoted to the promotion of local, high-quality and sustainable products. *Terra Madre* is the most significant of these events, launched in 2004 in Turin. During Terra Madre the different projects and initiatives of Slow Food, that take place in the different countries are presented. Terra Madre takes place in the same days of Salone del Gusto, a large global event where small producers present and sell their products. Mr. Farinetti has often stated that "Salone del Gusto" is one of the sources of inspiration that eventually generated Eataly's concept.

The relationship between Slow Food and Eataly was originated by the lone time friendship between Mr. Petrini and Mr. Farinetti (who is among the founders of the Slow Food movement having signed the original Slow Food manifesto in the 80s). This personal friendship, together with the commitment of Mr. Farinetti to Slow Food values was at the origin of a formal and fully structured relationship between Slow Food movement and Eataly. Slow food is the strategic consultant of Eataly, controlling and verifying the quality of the products offered, assessing their correspondence to Slow Food standards. Local producers that enter in the network of Eataly's suppliers have to embrace Slow Food values to be accepted by the firm.

4.3. Eataly's concept

Mr. Farinetti has often reported that the intuition for Eataly's store concept took place while waiting in his lawyer's waiting room to sign the deal with Dixons, in 2002. The anecdote tells that he sketched Eataly's first shop layout on a piece of paper and then brought it to Mr. Petrini to collect his impressions and verify if Slow Food could play a role in this new venture (Exhibit.). It is possible to notice, at bottom right of the sketch the name Eat Italy that was then to become Eataly. Eataly as a brand had already been registered by two separated actors. Mr. Farinetti succeeded purchasing the brand from both of them and, as reported by Eataly's founder: "Eataly is now our registered brand worldwide, since 1997" (Farinetti, 2009).

Exhibit...: Eataly's lay-out as sketched by Mr. Farinetti

The engagement of Slow Food since Eataly's foundation is a crucial aspect in explaining Eataly's pattern of growth and the way its expansion strategy was designed. At Eataly's food should be perceived as a "cultural product" that requires specific "socio-architectural contexts" to be fully understood and appreciated. Slow Food movement, with its global reach, has shaped, over the years, the tastes and attitudes towards food of a large and growing number of customers. Eataly aims at serving these customers with a format that represents Slow Food values:

(i) a supermarket that offers high-end local products;

(ii) a retail system that reduces the number of intermediaries between the supermarket chain and the small local producers to provide them with higher margins;

(iii) a retailer that offers local products form small producers at a fair price to the consumers;

(iv) A shopping experience that shows the traits of informality, sociality and entertainment.

The consulting role of Slow Food in supporting the selection process of suppliers is crucial in order to reduce the length of the retail chain and create assortments that might represent different local cultures and tastes.

Together with the external consulting support from Slow Food, Eataly is a firm with several shareholder groups whose expertise and competencies in various aspects of retail account for the uniqueness and robustness of Eataly's concept. 40% of the firm is owned by Mr. Luca Baffigo Filangeri that, through its portfolio of acquisitions, provided to Eataly the access to some key high quality niche producers of products such as pasta, wine, beer, meat, etc. The integration of such suppliers in the assortment platform took place long before the first Eataly's store was opened in Turin. At the same time, the integration of Coop (the second largest supermarket chain in Italy), through the branches of Coop Adriatica, Coop Ligura e Novacoop Piemonte (that account for 40% of the capital), permitted the access to food retail and distribution competencies at a very high level. A description of Eataly's ownership structure is presented in Exhibit 4.1.

Exhibit 4.1: Eataly's structure and ownership
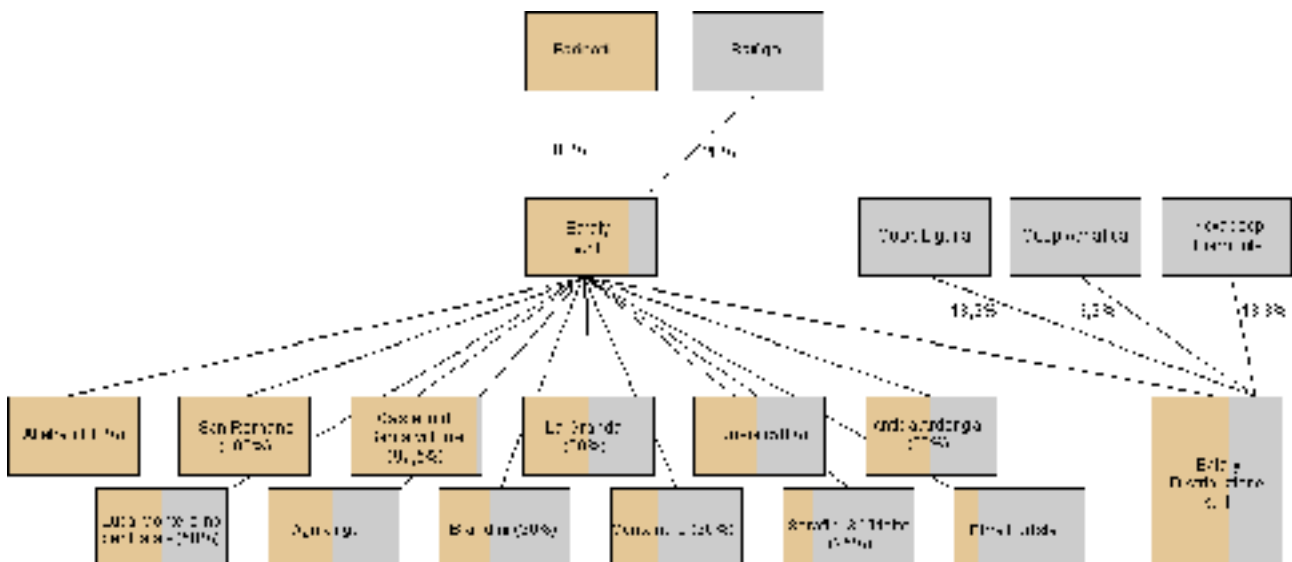
At present Eataly totally or partially owns several food companies, covering different sectors, that altogether guarantee an adequate flow of quality products for the distribution (Exhibit 4.2).

Exhibit 4.2: Eataly's acquisitions in the food sector

Pastifcio Afeltra di Gragnano (100% Eataly).

Vini San Romano (100% Eataly).

Vini Cantine del Castello di Santa Vittoria (97,5% Eataly, 2,5% management).

La Granda, meat, (50% Eataly , %50 Sergio Capaldo).

L'acqua Lurisia (50% Eataly, 50% Invernizzi family).

Salumi Antica Ardenga (50% Eataly, 50% Massimo Pezzani).

Luca Montersino per Eataly, pasticceria (50% Eataly , 50% Luca Montersino).

Vini Azienda Agricola Brandini (40% Eataly, 40% Piero Bagnasco, 20% Carlo Cavagnero).

Distilleria Montanaro (36% Eataly, 64% Montanaro's shareholders)

Vini Serafni & Vidotto (25% Eataly , 50% Serafni e Vidotto, 25% Tolio family).

Birra Lurisia (20% Eataly, 80% Teo Musso).

Azienda agricola e Caseifcio Agrilanga (50% Eataly , 50% founders).

4.3.1. The opening of Eataly at Lingotto (Turin)

On January, 27th 2007 the first Eataly store opened in Turin, in the Lingotto facility. The store is built on a surface of 11.000 square meters in the old vermouth Carpano's factory at the outskirts of the town (Exhibit 4.3).

Exhibit 4.3: the original Carpano's factory and the integration of the facility in the Lingotto store

In this first store it is possible to identify some traits that define Eataly's retail concept that, differently configured in the various locations, identify Eataly's shopping experience:

(i) <u>The role of the facility as landmark</u>: the Carpano factory has long been a symbol of an historical Turin brand and manufacturer of traditional spirits. The link with the past is highlight by the presence of a Carpano museum inside the store that displays the old machineries for the vermouth production and a collection of Carpano's adevrtsiments.

(ii) <u>A library displaying books on food and local culture</u> welcomes visitors at the entrance of the store. The meaning underneath this lay-out decision is to stress the role of culture and knowledge as a fundamental premise for responsible food purchase and consumption.

(iii) <u>The presence of nine restaurants and catering services:</u> the different restaurants are placed near the areas where fresh food is served stressing the link between the quality of the ingredients and the final output of the preparation. Each restaurant has its own chef and a separated item working in it. Each kitchen could be seen from the restaurant so that customers could see how meals are prepared.

(iv) <u>Eataly Lingotto is a learning environment</u>: the store offers programmes of education to food and diet for school as well as cooking courses that are related to the preparation of traditional and seasonal recipes in the store cooking and training centre.

(v) <u>Eataly is a communication environment</u>: one the most evident differences between a traditional supermarket and Eataly's Lingotto store is the amount of communication that could be found in the store. Eataly devotes a lot of energy in providing several information about the products, the producers and the experience that are offered in store. There is a strong emphasis on the informal learning as part of the shopping experience. At the Lingotto store entrance a large panel reported a quotation form Wendell Berry: "Eating is an agricultural act. The first agricultural action is made by the customer when he decides what to eat", preparing customers for a relationship with food purchase that is richer and more complex than shopping at a local supermarket. Another crucial aspect of in-store communication is its link to local cultures and habits. In the Lingotto store some welcoming signs were written in Turin dialect to show a high level of intimacy with the residents. Such practices are still present in all Eataly stores around the world, were it is possible to see the link between the brand and its local customers in several, different ways. Exhibit 4.4 presents a Lingotto sign in Turin dialect and more recent ones from Chicago and Copenhagen stores: these sign show some common aspects in the way the highlight the proximity of the brand to local or national cultures and values.

(vi) <u>Employees at Eataly's Lingotto learn the uniqueness of local food</u>: Eataly uses training on the job as the main form of internal training for its employees. One of the reasons of this decision is related to the differences that employees might find in working in different facilities as the preparation of food and the local assortments and tastes might vary significantly from on e store to the other.

Exhibit 4.4: samples of in-store communications at Eataly's stores, linking to local cultures

4.4. Eataly's expansion to global scale

In 2015 Mr. Oscar Farinetti left his role as managing president of Eataly to the former CEO of Luxottica, Mr. Andrea Guerra. Together with Mr. Guerra, the top management team of eataly is now composed by 3 CEOs: Mr. Farinetti's sons (Nicola and Francesco) and Mr. Luca Baffigo who has been a key partner of Eataly since the beginning. The new managing president shared a very similar vision with the one of the founder about Eataly's role in the present international food retail scenario (Pons, 2016):

"Eataly represents a global Italian business, it means bringing the excellence of the Italian experience to a global scale. Food is not a product, it is an emotion, a discovery, its quality and innovation, and all this together defines our business. It is easy but at the same time revolutionary.Eataly has subverted worldwide the way through which food is sold, eaten and consumed".

Since the first opening in Turin, Eataly has rapidly grown, becoming a large retail company that operates in several countries with global turnover of almost 600 million Euros in 2016. The company goal is to reach 100 stores worldwide in the upcoming years, with a rhythm of 4-5 opening per year. Eataly now operates, through different retail formulas and ownerships, not only in Italy but also in: Unites Staes of America; Brasil; Japan; South Korea; Saudi Arabia; Quatar; UAE, Turkey, Denmark, Germany. In terms of turnover

composition there are two leading countries (Italy and the USA) that together account for 75% of the turnover: in Italy the firm operates with 12 stores and 4 in the USA. In these two countries the firms plans to continue its policy of rapid growth through the opening of new stores with the ambition, recently expressed by Mr. Nicola Farinetti, Eataly's CEO, of reaching a turnover of one billion USD in the North American market in the next few years. The pace of new openings has progressively increased (Exhibit 4.5) following the strategic decision of supporting growth and expansion in new geographical markets to bring Eataly to a global scale.

Exhibit 4.5: a timeline of Eataly's openings
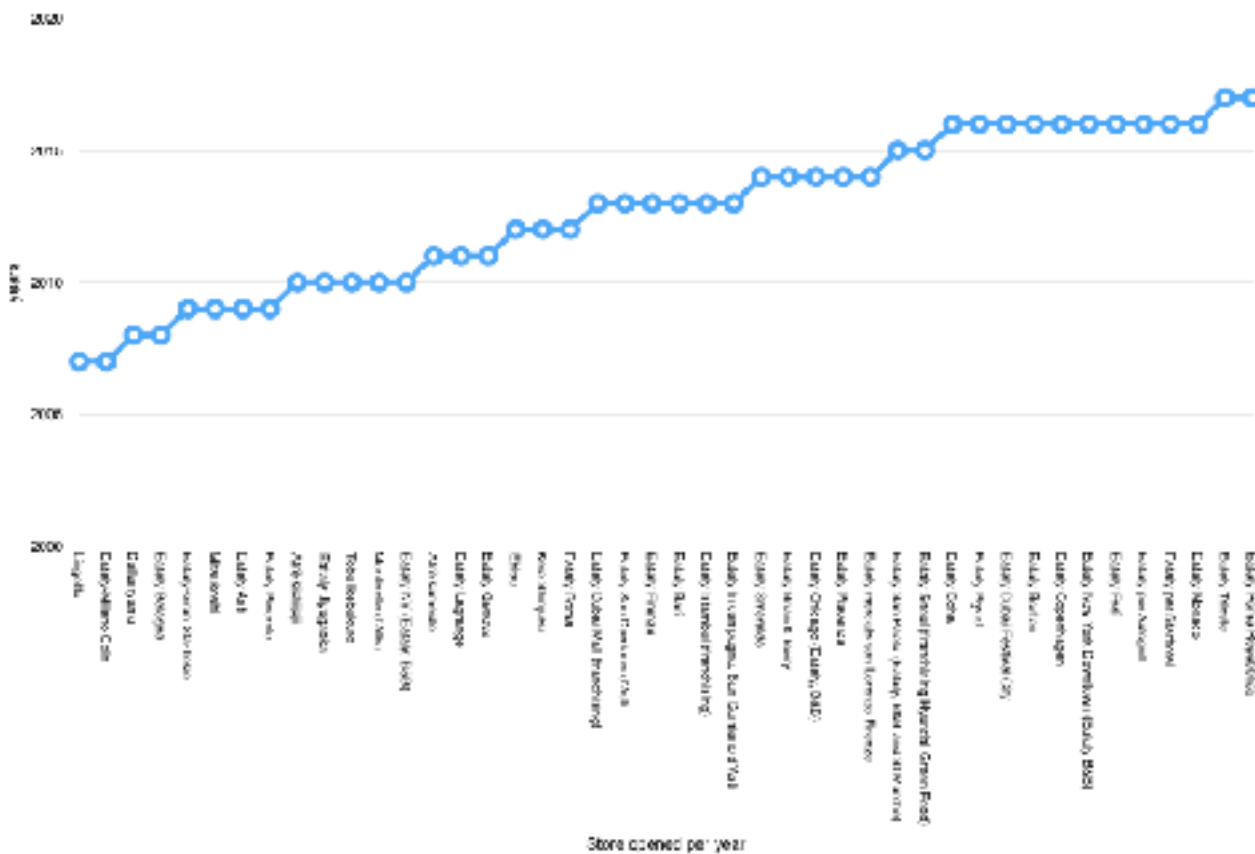
The growth process is not supported by a mere replication process of existing store format and retail formula but, on the contrary, it shows a continuous adaptation to local tastes, retail conditions and business partner availability. In this sense, Eataly's expansion is a "no-format" pattern as it combines and reconfigures the different components of its

business model adapting to local conditions, still preserving its uniqueness and rich meaning related to local food and cultural heritage. The adaptation of Eataly to different contexts affects several aspects of the business model:

i) Partnership solutions: Eataly adopts different corporate schemas in the different local contexts where it operates. In USA and Brazil, Eataly is present with a joint venture with B&B for the American market and B& B and the group St. Marche for the Brazilian one. At the same time Eataly has adopted the franchising solution for the Middle East markets, Turkey and South Korea. In order to access new business opportunities related to hotel and catering business, Eataly has developed partnerships with Starhotel and Autogrill for providing restaurants in Starhotel chain in Italy as well as a store in the Modena Autogrill facility on Italian motorway.

ii) Different store size and location: there is no such thing as a predefined store size driving Eataly expansion. Eataly's stores are very different one from the other: they range from 30-40 square metres like the one in Japan Atré Kameido to 11.000 square meters for the store in Roma Ostiense. Stores can be located in a building that is a landmark for the city, like the Carpano factory in Turin or the former Smeraldo theatre in Milan as well as the former Ostiense railway station in Rome. In these examples, buildings play a key symbolic role in promoting a specific, locally rooted relationship between the brand and the consumers. In other contexts, Eataly's stores are placed in shopping malls, like in South Korea or Brazil as well as the new store in Copenhagen. In these cases, it is the shopping mall or the department store that hosts the shop the mediator of Eataly's message for local customers.

iii) Different assortments and combination of shopping, restaurants and training activities: Eataly modifies its formula in several ways in order to fit in the different contexts and conditions. Assortments are often influenced by local products and small producers availability. This is the case not only of Italy based stores (where local producers might account for a large percentage of the overall assortment) but it is a pattern that could be seen in various situations across the world. In the San Paulo store in Brazil, for example, a part of the assortment is devoted to local products from small producers, while in the New York store meat is provided by small suppliers in the New York area. In other contexts, where Eataly adopted the franchising formula, assortments tend to be more determined and fixed, reducing the changes of integrating local products in the assortment grid. Training facilities, like the cooking school, as well as a calendar of educational initiatives might be present in several stores, from Copenhagen to San

Paulo, while in the small Japanese ones or in the stores opened in the Middle East this part of Eataly's offer is missing. Restaurants play different roles in the offer: Eataly has opened few restaurants in Italy (like the one in Monticello d'Alba or the restaurants placed in the open market of San Lorenzo in Florence) and a hamburger gourmet chain (L'Hamburgheria di Eataly) using the meat coming from La Granda, which is partially owned by Eataly and is part of Eataly's key suppliers. At the same time, restaurants are present in all Eataly's store, with very exceptions related to lack of space (like in the case of Japan small sized shops that only sell packed merchandising).

The different payees of Eataly's expansion described in these paragraphs could be depicted as in Table 4.1. It is possible to identify three separated phases the account for the business model configuration and competence building: (i) incubation and core competence formation; (ii) business model definition and start-up phase; (iii) business model adaptation and patterns of growth.

Table 4.1: Eataly's development phases

Incubation of core competencies	Business model definition and start-up phase	Adaptation and global growth
Entrepreneur's acquisition of retail and communication competencies during UNIEURO experience	Identification of an unexplored target market of the consumption of food as cultural product through the collaboration with Slow Food	Adaptation to several formats to support growth in different markets
Collaboration with Slow Food enriches entrepreneur's vision on food and the value of local producers in preserving uniqueness and traditions	Learn, Eat, Buy formula is developed and a possible store concept is formalised by the entrepreneur	Business model reconfiguration as pattern of growth is established ("no model" company)
Salone del Gusto of Slow Food is seen as a possible archetype for food distribution and selling through rich customer experiences and narratives	Supply chain and core suppliers' network definition takes place during the incubation phase of the business model	Different corporate schemas are adopted in different countries
	Lingotto store is opened in the old Carapano faculty	Italy and USA as leading markets for Eataly's expansion

4.5. Business model and value proposition

As presented in the previous paragraphs, Eataly's value proposition is built around the "Learn, Eat, Buy" concept and is tightly connected to the creation of immersive and culturally rooted experiences related to sustainable food consumption. To support this innovation in the food consumption value proposition, eataly adopted an approach to business model that reconfigures its competes depending on local contexts, still preserving the overall proposition. The configuration of the different components of the business model takes place at different levels:

(i) <u>At company network level</u>. Eataly adopts different corporate schemas in different regions. This implies an organisational ability to operate under different strategic, organisational and partnering conditions, still preserving its overall efficiency and its value proposition.

(ii) <u>At core process level</u>. At the core of Eataly's business model there are three key core processes referring to the management of restaurant and catering activities, training and customer engagement activities and retail operations. These core processes are configured and organised differently depending on the different local conditions. In some cases, only one core process is activated while the other two are not put in place: such is the case of Eataly's restaurants or the only management of retail operation in small stores in Japan. More frequently, such processes are combined together to adapt the offer to local conditions. Such conditions might refer to the store location and space availability or to the presence of local producers and particular local food cultures. These conditions altogether require a different organisation of such processes and of the way they are combined together to offer a seamless experience for customers.

(iii) <u>At sub-process and routine level</u>. Several aspects of each single core process have to be transformed and modified facing new openings and new locations. This level is particularly complex as it involves most of the activity that could be considered as key to new store opening. Contrary to traditional retail growth strategy, in fact, Eataly is not adopting a replication and standardisation approach. This is due to the uniqueness of the value proposition promoting food as a cultural product deeply influenced by local cultures. Several routines and sub-processes belonging to the different core processes are reconfigured and differently integrated with the others at

every new opening making this level of configuration crucial for the success of Eataly's expansion.

4.6. The New Opening Process

Store opening is a core activity for every retailer as it determines its economic and finial results and the quality of its pattern of growth. The way Eataly approaches this issue differs significantly form the replication of retail formats. In traditional food mass retail distribution, new openings are managed through the adoption of a pre-defined format that includes modular surfaces, standardized assortments, replication processes. The advantages of this approach are related to economies of scale and scope.

Eataly's unique value proposition, related to the integration of local food and culture in the shopping experience, requires a very different approach to new store openings. It is of the utmost interest the way through which Eataly succeeds in adapting to local contexts still preserving adequate economic returns. On the whole, several aspects that characterize a store format are modified and adapted to local contexts at every new store opening.

The following sections provide a description of each phase of the decision-making process of new store opening, and whenever possible representative quotes are used to illustrate the different aspects of the store opening.

The store opening process involves several actors belonging to different functions as well as external partners and consultants. The process is in the hands of one of Eataly's operative CEOs: Mr. Francesco Farinetti, one of the sons of Mr. Oscar Farinetti. The process involves a large number of actors during its different phases. The team is composed by actors that worked together since the beginning and, as in the case of the communication director, have worked with Mr. Oscar Farinetti even during the UNIEURO experience. The opening of an Eataly's store is a process composed by several phases that could be defined as follows:

(i)   Site selection and facility design;
(ii) Space allocation to the different departments and services (restaurants, catering and training services);
(iii) Assortment definition and category management;

(iv) Local suppliers identification and integration in the assortment;

(v) In-store communication;

(vi) Personnel recruiting and training.

4.6.1. Site selection and facility design

The process begins with the site selection that is crucial to the representation of Eataly's value proposition for local customers. In choosing the location for new shops, Eataly's top managers do not look for standardisation or replication of existing formats: "Eataly is an anti-model company". On the contrary, the quality of the building and its past history are the key factor affecting the decision. Quoting Mr. Francesco Farinetti himself: "The location has to be iconic and capable of creating deep emotional connections with the customer…it must have a past history and somehow be a landmark in the city. The opening of the new Milan shop will be at the Smeraldo theatre. We will respect the past role of this building and are planning to have shows running in the shop all throughout the week as an integrating part of our offer." "The Bari facility is part of the recent history of the town, just in front of the sea in the old fair area. It will be a door towards the sea for the customer and we will respect this role in selecting the right product categories and setting up theme restaurants in the store." "The format adapts to the history of the location and the food tradition and is part of the narrative of quality food". "All our locations have an history to tell: in Rome it is the forgotten air terminal of Ostiense, in Genoa it is the old harbour and its tradition, in Florence is an old and precious bookstore that was a landmark of the town..".

The new building is the way through which Eataly experiments new solutions and formulas that could then be integrated in future openings or remain ad hoc solutions. "Format must always be adapted to different realities…we continually strive to experiment through trial and error". "Our approach is based on the uniqueness of our idea of using food to tell stories to our customers and deliver the richest possible experience to them". "Our customers are attracted by the beauty and uniqueness of the location, by the quality of our restaurants and eventually by the fact that they could purchase good local food". One of the key concepts expressed by top management is the one of flexibility: flexibility to the local tastes, flexibility in adopting ad hoc solution in a fast and continuous way (the

New York store restaurant named "La Piazza" was decided 48 hours before the grand opening).

Together with CEO, architects and store designers are primarily involved in this phase of the process. Every new store is approached as a totally new project, with unique characteristics and challenges. To guarantee the quality of the final project, designers should be able to interpret the meaning of the building for local customers and try to preserve its qualities as cultural landmark. The process is very open and involves, even if in a not structured manner, different subjects that will use the spaces, from category managers to the communication director. One of the interesting traits of the store design phase is its openness to a trial and error approach. The "spirit", i.e. the cultural meaning that is attributed to the building and the location, is the key driver for project design and modifications: playing such a crucial role it is of no surprise that a lot of time and effort is spent in understanding the implications of dealing with a cultural landmark.

4.6.2. Space allocation to the different departments and services (restaurants, catering and training services)

During the store design phase crucial decisions are taken regarding the allocation of retail spaces to the different components of Eataly's offer: from fresh to packed goods, restaurant and catering services, training spaces. Such decisions involve several actors, from top managers to category manager and restaurant directors. The most crucial aspect of this phase is related to the lack of a predetermined assortment grid and space allocation plan. In this sense, what emerges from interviews is the perception that every single store is a unique and separated project that requires the collaboration of all the actors to succeed. The lack of pre-determined solutions seems to reduce the opportunities if conflicts, while an open to change culture facilitates the integration between actors.

"Categories are designed differently for every shop in order to fit the location and deliver an unique customer experience", "we have shops as small as few square meters in Tokio underground and multi-floor ones like the one in New York: We want each shop to tell its own story and yet show the Eataly formula at its best". Overall Eataly divides its formats depending on space availability and, after some discussion, top managers identified a

small format with a single restaurant, a medium size format (1.000/4.000 square meters) with a wider exposition of local products and a large format (over 10.000 square meters) with several restaurants and a lay-out well divided into merchandise categories. Mr. Francesco Farinetti was asked if these formats could be considered as standards that drive the selection of the location, the evaluation of the shop profitability and the category management but the answer was that each shop is a stand alone projects and that these formats are more a post project taxonomy than a real driver for identifying growth patterns.

The process of format adaptation is not finished once the store is opened and continuous improvement is generated by customers' feedbacks and shop formula hybridations. "When we opened the Turin shop there was no pastry store inside it. After many requests from our customers, we created a 'shop in shop' pastry laboratory that become one of our assets. We consider each shop a work in progress". "In the New York store we created many small labs in a shop area and this became a trademark of our large surfaces all over the world, showing 'transparently' what we produce for our customers".

4.6.3. Assortment definition, category management and local suppliers' selection

The uniqueness of the location calls for strong adaptations of the layouts and the merchandising. This process in undertaken not only by Eataly's staff but requires the involvement of partner suppliers, as well as Slow Food consultants that play a key role company's category management. If shop openings do not show any relevant trace of standardisation what will it be with the selection of suppliers and the definition of assortments? The interview described the way assortments are built starting from the idea of food and taste heritage: "In Italy we have the world's largest food heritage, not even China and its millennial cuisine have such a wide variety of food and delis". This brought managers to define a very adaptive approach to assortment building. Using a completely different stance when compared to traditional supermarkets, Eataly does not adopt a fixed grid in building assortments depending on category roles but it configures its categories following the availability of local excellences. In fact, local products and small producers play a crucial role and can have a different weight in shop assortments. "We take a snapshot of local excellences and promote them in our shops. In the Turin

shop 70% of all products come from local producers, in Bologna this percentage is 45% and 55% in Rome".

With such a wide range of producers to evaluate and the complexity of creating *ad hoc* assortments for each shop the suppliers' selection criteria plays a crucial role in Eataly's strategy. This activity is managed with the active support of Slow Food consultants. "Slow Food is our strategic partner that always brings to us so many options and new ideas". Once the location as well as the lay out are planned, Slow Food local team scouts the territory in search of product excellences and small producers whose characteristics might match with Slow Food values and approach to food and food transformation. This process works for both the Italian shops and the international ones. A part of the assortment is always related to Italian food but its width depends on the single shop layout. Eataly directly imports Italian products in the different nations and this allows it to bring to local customers unique products with a deep meaning and uniqueness. "In Japan we introduced 1.200 Italian products that none had ever brought to that market, while in New York we directly imported over 3.000 different products". At the same time, Slow food experts and consultants might select local products and producers that should be integrated into the assortment as representing excellences of different national food products. In Sao Paulo store, for example, a selection of local Brazilian products is available and the same thing happens in the USA stores. Interestingly, local products and Italian ones could be combined to offer a unique experience to customers, highlighting how quality foods might be combined together for exceptional results. During summer, in the Copenhagen store gin and tonic is served in a small booth that combines Italian made gin with Danish made tonic water (Exhibit 4.6). At the same time, in the New York store bakery follows traditional Italian bread recipes but using American flour coming from small producers of the New York area.

The collaboration of category managers with Slow Food consultants in defining the assortment grid and selecting local suppliers is a crucial aspect of this phase. The fact that these actors share a common vision about the cultural dimensions of food and a true understanding of the role that local products play in the success of Eataly's formula is determinant for the integration of different approaches and visions. Slow Food consultants and category managers interact with restuarant directs as the quality and nature of the assortment defines the kind of menus that might be offered in store.

Restaurants and catering service provide menus that show how products that are offered in the store could be used to create traditional dishes.

Exhibit 4.6: an example of Danish and Italian food integration in catering services

4.6.4. In store communication

One of the aspects of Eataly's unique retail formula that immediately strikes the visitor is the large amount of in store communication compared to traditional food mass retailers. The communication process is based on the integration between marketing and communication as well as the other functions involved in the opening process. The communication director, as well as other subjects that take part to the process of new opening, has a long relationship with Slow Food movement and this helped in shaping the communication approach toward quality food. Every new opening has a different surface and a different combination of restaurant, catering, training and shopping areas. At the

same time assortments may vary significantly form one location to the other. All these aspects affect the way in store communication is developed and implement. The director of communication at Eataly has been in the same role in UNIEURO when Mr. Oscar Farinetti was the CEO. She highlights the differences between the two experiences pointing out two main differences:

(i) A higher level of teamwork is in place at Eataly. Relationships between store managers and the communication department are more frequent and somehow necessary to support the promotion of assortments that show different characteristics depending on local assortments. "The guy that is responsible for fresh fruit and vegetables in Lingotto store just called in saying that in these days Carmagnola strawberries are ripe…can we make up something to promote the thing?" This constant interaction with different stores permits to adapt communication to local needs and local food cultures.

(ii) Each store opening has to be considered as a unique, stand alone project that presents particular communication needs, both in store and outside it. Italy has traditionally used newspaper advertising to communicate with customers. Newspaper permit Eataly's messages to be declined geographically and, at the same time, provide a particular speed in promoting the message to the target audience. Only recently a larger investment took place for the digital communication promoting e-commerce and store webpages on site and on social media platforms. As stated by the communication director: "Each store promotes its own way of eating and we have to adapt to it". Eataly puts a strong emphasis on the communication of product categories more than single product brands. In this sense, the general characteristics, the manufacturing processes and the cultural roots of different product categories are presented to customers in order to increase their product knowledge during the purchase experience.

The integration with the other subjects of the opening team and local store managers in the communication strategy is essential to permit Eataly to fine tune its communication to local tastes, food cultures and products.

4.6.5. Personnel recruiting and training

Eataly is a young company with over 5.500 employees globally, with an average age of 29 years. All store managers made their careers internally as most of the training is on the job. Eataly has an internal school to form specific roles such as butchers, bakers, etc. Eataly has local HR offices in the different regions outside Italy, while the Italian HR office coordinates the different branches and focuses on the workforce of Italian stores.

More specifically, when facing a new store opening and once the needed profiles have been recruited there are two main training phases:

(i) Develop a familiarity with store departments and product categories. All employees are invited to become familiar with store communication, product descriptions and all other sources of information that are available to customers. In this sense, there is a need to align employees and customers in the understanding of the original and cultural implications of the product belonging to different product categories.

(ii) Acquire a deep understanding of the cultural dimensions related to food in different local contexts. The same consulting team of Slow Food that is involved in the selection of local products and procures is responsible for training programmes. Such programs involve training sessions for the whole store personnel to develop their understanding of the cultural meaning of food, its origins and values as well as its link to local territories and their traditional agriculture.

A comprehensive overview of the different subjects involved and the various phases of the opening process is present in Exhibit 4.7. The different phases are presented with regard to the roles involved and the main activities that take place in every phase.

For every stage, Exhibit…presents the different routines and sub-processes that habilitate the different set of dynamic capabilities supporting the store opening process. There are some key aspects, related to the mechanism of dynamic capabilities activation, that should be highlighted at the end of this case description.

(i) <u>External informants,</u> i.e. Slow Food consultants are determinants in creating the right setting for the perception of the particular cultural meaning that Eataly associates to

food consumption. Their role is pivotal not only in supporting the construction of the assortment grid and the selection of the local suppliers, but also in providing the encompassing vision that allows Eataly's opening team to work smoothly around a shared vision of the purpose of every new opening project. The cultural dimension provided by Slow Food consultants is an activator of the dynamic capabilities.

(ii) <u>Continuous organisational learning</u> process is at the roots of Eataly's ability to face every new project in a proactive and creative way. While learning is one of the key elements of the firm value proposition (Eat, Learn, Buy), it is also a key aspect of the way it approaches its pattern of growth. In this sense, learning is not related to the understanding of how to perform template replication but to the integration of the overall value proposition of the firm to local contexts and different cultures. By sharing a same vision about food and its cultural implication, several organizational barrier are overcome and information can flow more freely from one function to the other.

(iii) <u>Cultural meaning of the offer is perceived as an antecedent</u>. The idea that people in different parts of the world "eat differently" and that this fact affects the way food should be treated and sold is a value that none of the people interviewed puts in discussion. The cultural meaning of food is the reason why people buy at Eataly's and why it is so successful. In this sense, the whole opening process and, on a larger scale, most of the managerial processes, aims at preserving the ability of the firm to represent this cultural meaning. From site selection to the way assortment grids are developed, down to the trading programmes for employees, there is a common thread that links these initiative: the perception of their role as components of a larger grammar which purpose is to represent the cultural meaning of food and transform it into a rich and meaningful shopping experience. This common, shared value permits the constant adaptation and reconfiguration of business model components without creating excessive performance or organisational tensions within the firm.

Exhibit 4.7: Eataly data matrix showing the different phases of the opening process

Eataly Qualitative Data Matrix

BM Components	Site selection	Format design	Assortment and category	Local suppliers involvement	Instore communication	Personnel selection and training
Roles involved	CEO, Architect	Store designer, Category managers, in-store communication, store manager	Category manager, Store manager	Category manager, Slow Food consultant	In-store communications, marketing, category management, graphic designers, store manager	HRM (on the job training by different functions, formal professional courses for store catering and service), store manager
Main actions	Identification of commercial area, identification of "landmark", symbolic building that can convey Eataly's values	Configuration of the different components of Italy's business model: off-shelves products, restaurants, labs, training courses	Assortment grid design in relationship to space availability and store constraints	Local suppliers selection, contract stipulations, order handling	"Passive education" through in store signs and communications (500 signs in store presenting all products and sources) supporting departments and categories	Teams' definition, training on cultural implications of food (origins, suppliers, local recipes, etc.), integration of skilled workers coming from other stores and new employees
Sources of information (insight and market sensing)	Informal meetings and information gathering through Slow Food consultants	Cross functional meetings, shared common background on store openings	in loco Slow Food consultants and headquarter Slow Food experts	In loco Slow Food consultants and headquarter Slow Food experts	Slow food consultants, cross functional meetings, shared past experiences	Past experiences of category managers and Slow Food experts for identification of skills and competencies related to local food processing and consulting for customers
Coordination between functions and subjects (seizing)	Decisions taken assuming the adaptation process will "automatically" work depending on team soft skills and experiences	Integration with different functions supported by common cultural background and experiences. No formal coordination or quality measures. Task-driven attitudes and in progress adaptations as key skills for all roles involved	Integration with external consultants based on past experiences and shared values	Slow Food consultants as intermediaries between category managers and suppliers for value alignment	Integration with different functions supported by common cultural background and experiences. No formal coordination or quality measures. Task-driven attitudes and in progress adaptations as key skills for all roles involved	Informal involvement of different functions. Key role of store manager and skilled employees.
Configuration of processes (transformation)	Store size and position is pivotal to the whole opening process	Iterative process with other stakeholders: no formal blueprint	Iterative process with suppliers and consultants: no formal blueprint	Iterative process with suppliers and consultants: formal blueprint for contract definition	Iterative process with other stakeholders: no formal blueprint	Formal steps and on the job training. Trial and error approach to employees' selection and recruitment

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Chapter Five: Champagne Krug Case Study

Repositioning brand through heritage discovery: the role of dynamic capabilities in supporting business model innovation to new meaning

5.1 Heritage and business model innovation

Krug case study represents a form of business model innovation that is generated through the rediscovery of firm's heritage. In this sense, innovation is driven by the introduction of a new meaning, which modifies the value proposition of the brand and, at the same time, configures the business model components in a different way. Components are not added or introduced as new parts of the business model, but are reconfigured thanks to a set of dynamic capabilities that are activated by the rediscovery of the heritage.

While there is a common understanding of the role of brand and brand heritage as a platform for strategic decision (Balmer, 2011; Santos et al., 2016), it is also possible to assume that corporate and brand heritage could play a crucial role in reconfiguring firm's business model, reshaping the way a firm creates and delivers value to its customers. The link between corporate heritage and business model innovation, or reconfiguration, is an area that still needs to be explored both at theoretical and empirical level, although some studies have already analysed the passing of corporate crises through the restoring of heritage brands (Cooper et al., 2015). It is important to notice that, at present, an organisational approach to the issue is missing. Such approach could help in defining change management and organisational capabilities, supporting the business model reconfiguration, necessary for the revitalisation process. The case analysed puts forward the idea that managers deliberately use corporate heritage for strategic innovation, with an impact on all aspects of the business model and that this process follows an explicit model or pattern that could be reconstructed and formalised. During this process, different sets of dynamic capabilities are activated within the organisation to support the reconfiguration of the business model and the deployment of operative resources. The activation of the reconfiguration process is in the hands of top management, who might rely upon the external support of consultants and other experts in order to challenge the present

cognitive framework and show the strategic relevance of heritage as business model configurator (Sanchez & Heene, 1997).

5.2. Heritage as business model innovation driver: Krug Champagne case

The case described in the following pages focuses on the turnaround period for Krug that took place in the middle of a severe crisis, both economical and societal. In order to frame the period of the turnaround, a synthetic description of the company's history is provided in following paragraph.

5.2.1. Foundation, growth and crisis (1843-2009)

Champagne Krug is a luxury champagne producer that, since 1999, is part of LVMH group. Krug Champagne produces an average of 450.000 bottles of champagne per year, divided into several different types. This accounts for less than one per cent of the whole yearly champagne production, making of Krug Champagne a luxury niche brand in the market. Asia is the largest market for the brand, followed by United States and Europe.

The Maison of Krug & Champagne was founded in 1843 by German born Joseph Krug. Joseph Krug aimed at creating a champagne that could preserve the same quality year after year, despite the variations in grapes quality, by using every year only the best wines from the best vineyards. To ensure this quality, grapes are still selected and negotiated parcel by parcel and not in large lots. Mr. Krug also created reserves of the best wines (Vintage) in order to blend his champagne, reducing the risk of variations in the level of quality. The name of this champagne was Champagne n.1 Krug Grand Cuvée and it is still part of company's offer nowadays. Champagne n.2 (now named Krug Vintage) is the expression of a specific year and it is created only in years that present significant traits in terms of wine quality and personality. During the seventies, Champagne Krug launched Clos du Mesnil, a champagne that is made from grapes coming from a 1.84 hectare lot, bought by the company in 1971, in the village of Mesnil-sur-oger. It is made from grapes coming from a single harvest and is cellared for ten years before being offered for consumption. In 1994, Krug Champagne launched Clos D'Ambonny, a champagne that comes from the grapes of an even smaller lot of less than one hectare. This champagne has to be cellared for ten years before consumption, too.

Compared to other high-end champagne producers, Krug Champagne shows some unique traits in the making of champagne, such as:

(i) <u>Access to highly selected raw materials</u>. To guarantee its high level of quality and unique characteristics, separate long- term contracts are made for grapes coming from individual parcels. The purchase of grapes from single parcels is a key aspect in the differentiation of Krug's champagne and is still retained as a key process. The acquisition by LVMH did not affect this process, though economies of scale and scope might emerge from taking part to the procurement process of the LVMH group, which buys and handles larger lots of raw material. The Champagne region is characterised by a significant fragmentation, with 277.000 different parcels in 84.000 acres of wine. This fragmentation allows for single parcel negotiation and the selection of very specify lots to ensure a differentiating quality of the final product.

(ii) <u>Unique stocking process for the squeezed grapes</u>. Differently from other producers, Krug Champagne uses small wooden barrels to stock the squeezed grapes, allowing single lots to express all their uniqueness and quality before the cuvèe process takes place.

(iii) <u>Another distinctive trait is the cuvèe process.</u> Cuvèe is the process of selecting wines that compose the final blend and in, the case of Krug Champagne, is particularly accurate and complex, taking into account up to 150 different wines to select the few ones that might add a specific taste and personality to the champagne.

From 1843 until 1970, Krug Champagne had been a family owned company. In 1970 the firm was acquired by Remy Cointreau, a large French multinational group operating in the wine and spirt sector. Despite the change in the ownership, Krug family has always retained managerial positions in the company. After this first acquisition, Krug Champagne developed a strategy to reinforce its positioning of uniqueness and difference from other high-end champagne brands. Remi Krug, a descendant of the Krug family, promoted this image worldwide with the slogan: "There is champagne and then there is Krug". The reasons and determinants of this uniqueness were kept secret by the company, which did not allow any external visitor to pass its gates. The secrecy of the basis of the differentiation was explained by Remi Krug with a culinary metaphor: "Would anyone ask a great chef for his recipe?". The idea beneath this statement was that real connoisseurs would recognise Krug's quality and trust it implicitly, without any need to ask for explanations. In this sense, Krug Champagne loyal customers were called "Krugistes", like

a sort of religious group that would love the brand and its products without questioning its superior quality and uniqueness when compared to other luxury brands of champagne.

This approach, though very successful for several decades, was hardly matching with new global markets and evolving consumer preferences. Krug Champagne has been progressively put into an uneasy situation by the demand for richer storytelling supporting luxury brands (Pini, 2017) and a need for a deeper relationship with authenticity from customer all over the world. The brand aura of distinctiveness and secrecy was lacking of appeal for new affluent customers, calling for richer experiences while interacting with brands.

The situation at Krug Champagne progressively deteriorated and the brand had a hard time trying to stay afloat in the midst of the economic turmoil that hit global markets at the end of the 90s. In 1999 LVMH acquired Krug Champagne from Remy Cointreau, in order to add a luxury brand to its already rich portfolio of champagne brands that include, together with Krug: Moet & Chandon, Dom Perignon, Ruinart, Veuve Cliquot and Mercier.

Since 1999, different CEOs, appointed by LVMH group, have tried to give Krug Champagne brand a new boost, in order to avoid declining sales, by putting an even stronger accent on the uniqueness of the product and its superior quality and leveraging the communication and distribution potential of LVMH group. One relevant aspect, that characterises this long period of crisis, and that emerged during interviews, is the impression, expressed by several Krug's employees, that the different CEOs showed non interest in understanding the uniqueness of Krug's champagne, but were more interested in exploiting the existing brand equity in an effort to generate short term results. The actors interviewed felt that top managers were willing to apply "one size fits all" recipes to the situation, focussing, at different moments, on sell out efforts or expensive advertising campaigns. Despite these initiatives, the decrease of sales continued up to a level that put the survival of the company at risk. This critical situation was made worse by the champagne and wine market crisis, that broke out during the first years of 2000. The reason for this crisis is related to economic downturns in several national economies, forcing customers to cut on luxury goods spending. The long period of crisis has generated tensions within the firm, with labour force conflicts breaking out for the first time in Krug's history during the first years of 2010. A timeline of the Krug phases is presented in Fig.5.1.

Figure 5.1: Krug's timeline
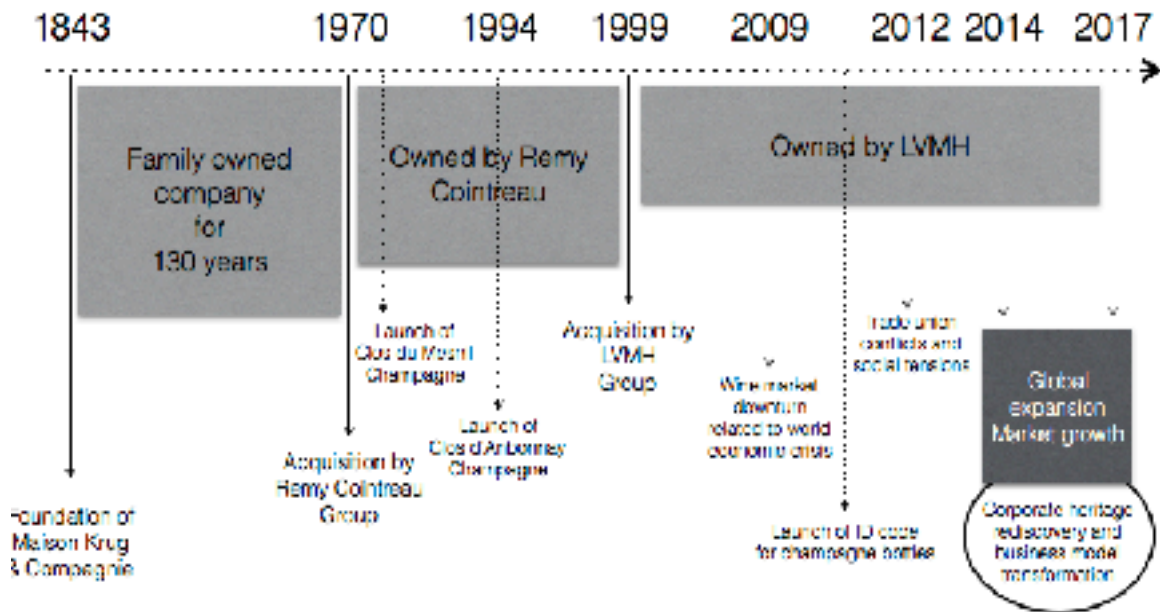
5.2.2. Krug Champagne turnaround: exploiting corporate heritage for business model reconfiguration

In 2009, Ms. Maggie Henriquez was appointed new CEO for Krug Champagne. She had a long carrier in wine industry: out of her 33 years of experience, started in 1978, 26 have been in this area. From 2001 to 2008 she was in charge of all the properties of Moet Hennessy in Argentina, where she developed a deep knowledge and understanding of LVMH's wine and spirits brands. Ms. Henriquez joined Krug Champagne in a very dramatic moment of its history, with sales decreasing by 40% in a single year. In her first year at the wheel of the firm, she was unable to bring the expected results and she realised that a totally new approach was needed to bring the much needed turnaround into the company. She had a background of successful turnarounds and a knack for recreating lost corporate

identities (Tardi, 2016) and this suggested the CEO a totally new approach to develop a luxury house of champagne.

Krug's turnaround was determined by several different factors, including the strong leadership and managerial style of Ms. Henriquez. On the whole, different phases generated key events, in the turnaround process, bringing to a business model innovation. The analysis identifies four stages of the business model innovation process, based on corporate heritage rediscovery and the role and the use of dynamic capabilities in different stages. Business model innovation involved several actors, within the different functions, and activated a network of external consultants, that supported the different phases of the transition. Table 5.1 shows the main findings in every stage, with a synthetic description of the roles, activities and outputs.

These results put in evidence the organisational work of change management plan to support and implement managerial choices, starting from the discovery of corporate heritage. In each stage, the change of meaning, induced by corporate heritage, is supported by different dynamic capabilities. Such capabilities empower and help the change management process. Corporate heritage ignites this process but it also gives direction and vision about what to do to reconfigure business model for a successful turnaround.

Table 5.1: Preview of findings of Krug Champagne case study

	Phase 1	Phase 2	Phase 3	Phase 4
CEO	Brand identity rediscovery through history	Eliminate barriers between function to help people to share the maison culture and philosophy. Reinforce the distinctiveness of champagne identity vs wine.	Allocate resources for excellence based on heritage	

	Phase 1	**Phase 2**	**Phase 3**	**Phase 4**
Consultants	Historian supporting the ceo in heritage rediscovery communication consultant linking heritage with communications and luxury image	Recreate KRUG founder guidelines for champagne excellence		
Enology and production	return independant from LVMH group on product as well as marketing	Develop an independent stance towards production, separating it from LVMH economies of scale approach	Uniqueness and the fact that KRUG does things differently putting wine excellence in the first row. Enology becomes key function in turnaround.	Integration mechanisms based on brand heritage and corporate identity: degustations; communication (transparency) and technical meeting opened to all layers of the organisation. integration role with savoir faire transmission goal
Marketing		Communication strategies on heritage values and graphic design modifications	Create unique codes for champagne that might please a larger audience than technical experts	
HR	Develop a sense of belonging through internal training		Promote champagne codes and KRUG codes within the company. Support change management through symbols and artifacts related to champagne culture (book): create pride	Consolidation processes through culture diffusion
Operations and retail	Highlight the product uniqueness compared with other champagne	Development of a KRUG stand alone operating system. Step away from gastronomie to promote champagne as not a wine	Courses with commercial and retailers to promote brand values	KRUG develops synergies with group retail systems exploiting new brand position

It is now possible to take into account the different phases and describe the actions of the different actors involved. The whole turnaround process involved several functions at their top levels, with a particular emphasis on enology and production as well as retail and distribution. All these functions were active all throughout the different phases while others, such a marketing or HR, were actively involved only in some of the phases of the business model innovation.

Phase 1

The first phase of the turnaround was characterised by CEO's intense activity of research in order to develop a deep understanding of the luxury champagne industry and, most of all, of the uniqueness of Krug Champagne. Despite its long story and the constant presence of members of the family in the firm, what Ms. Henriquez realised was the total absence of knowledge of Krug's history, its value and the cultural elements beneath the processes and activities that were performed on a daily basis within the different functions.

As she reported during interview:

> *"I discovered that in Krug, they didn't know the founder story, his value and basis. So it wasn't possible to build a strategy. I asked expert to help me in brand understanding. With the support of Alain Tardi, an historian with a deep knowledge of wine history, and of an expert in luxury communication, we started to work hard on Krug's identity".*

Their joint effort was devoted to the reconstruction of the history of the *maison*. Such an effort was not motivated by communication and marketing purposes, as most of the activities and processes that took place at Krug Champagne were influenced by heritage, by the norms and rules that had been given by the founder over 150 years before. The loss of the meaning affected processes and behaviours in all the functions as stated by former Krug's oenologue:

> *"I did not know that what I was doing on a daily basis was part of the vision of the founder, and when I discovered it, well, it gave a totally new meaning to my whole work".*

One of the key moments of this phase of the business model innovation process, as reported by several actors interviewed, was the discovery of founder's diaries, that describe how champagne should be produced and the values of *maison* Krug compared to other producers. In 2012 these diaries were turned into a book, translated in several languages, that was made available internally and for customers. The excitement of Ms. Henriquez is very well depicted in her statements:

> "*I learned about his (Joseph Krug, ndr) lost notebook. Then I got it! That was what was missing: the unbroken link to the past. We were doing all these elaborate things to create this marvellous unique quintessential champagne, but no one really knew why*" .

The discovery of the diary was a milestone in defining the meaning supporting the turnaround and driving it. Nevertheless, the rediscovery of the heritage was a lengthy and complex process that took into consideration not only the history of the founder, but all the aspects that turned Krug Champagne into a unique *maison*. Other artifacts that accounted for a unique and sometimes bizarre way of doing things were put under the lens as symbols of a unique culture, that needed to be restored (Exhibit 5.2).

As reported in LVMH website: "In the mid-80s Krug Champagne created a very special vehicle to deliver its prestigious champagnes to VIP customers, converting a Rolls-Royce Silver Shadow II into a panel van, covered in Krug white and burgundy livery…. Only three of these unique Rolls-Royce models were commissioned to serve the European, U.S. and Japanese markets. The custom interior was designed to deliver a memorably chic picnic to the House's loyal aficionados, notably at high-profile events. The rear is fitted with two refrigerators to chill sixteen bottles, plus two varnished wood cases holding eight tulip champagne glasses, two ice buckets, a table and folding chairs, and a tent that folds out from the rear door."

While two of these Rolls Royce were dismantled at a certain moment, Ms. Henriquez insisted in searching for the remaining one and, as reported by former enologue:

"Finally we discovered that the car was in Rome, in the facilities of one of our distributors. Maggie (Ms. Henriquez, ndr) insisted that we had to go there and pick it up and the we had to bring it back to France and have it restored."

The restored Rolls-Royce, bearing the license plate number KRU 149, is now displayed in the courtyard of the Krug facility in Reims, welcoming visitors during special events.

These initiatives, related to the rediscovery of symbolic artifact and their reintroduction into company life, were integrated with training programmes for all the employees promoting Krug's heritage and history, as well as the unique conception beneath the product. At the same time, Ms. Henriquez ran several meetings with all employees promoting her vision of champagne Krug and the rediscovery of its heritage. She described this period as sometimes "very frustrating" as people looked very puzzled at the idea of spending so much time on the heritage of the brand and its impact on company life while sales were decreasing and there seemed to be no immediate solution for recovery.

At the operational level, it was decided to return independent from LVMH group on product policies, as well as marketing, to preserve Krug's brand uniqueness in high quality champagne. This decision was particularly relevant, in strategic terms, as it put an end to possible synergies and economies of scale in a period of decreasing sales.

Exhibit 5.2: Krug's notebook and the restored Rolls Royce

Phase 2

Subsequently, a huge effort was made to "*show men and women behind the Krug's stories*", as stated by Ms. Heneriquez during interviews:

> "*The kind of technical language used by Krug for describing itself was so bad. Krug is a luxury brand, it is a necessity to tell its story with men and women behind these stories.*"

> "*In term of brand during the crisis period: everything was fake! The point here is not to write a story for the brand . In 2003 a guy arrived and they made up a story for Krug… they built a narrative and invented a personality and Krug was dead! Everything was fake….Everything was arrogance, communication was mysterious and old fashioned. Everybody in the company spoke about wine and not about champagne. It was all on technical elements and not brand spirit.*"

> "*We were not champagne, we were Krug and we were talking only to few connoisseurs…We were nowhere talking with nobody*".

Ms. Henriquez and her team developed, in phase 1, a brand identity heavily relying upon founder's heritage, his ideals of excellence and endless commitment of the whole organisation to perfection:

> "*Krug represents the art of the contrast… [It is full yet fine; it is fresh yet mature; it is magical yet modern]. maison Krug is a unique type of champagne house. Unique in its refinement… we work on detail, we never compromise. However, it is never for perfection, it is for pleasure. We all insist on consistency and continuity while striving for modernity. Everybody in our house knows how he or she contributes to value creation. It's all in the contrast: demanding in our modernity and in our continuity.*"

Once a new possible meaning, that could drive company turnaround, was discovered, the biggest challenge was to turn heritage into practices and behaviours. The path that was

undertaken was the one of showing the people beneath the brand. By living Krug's heritage people that work in the firm can perform the same exceptional results, becoming exceptional people in their job. Consequently exceptional people make exceptional stories that are worth spreading.

This phase of the turnaround was the most challenging and, at the same time, complex as it aimed at subverting the culture of secrecy that ruled the company for decades. Maison Krug was a sort of detached temple for Krugists, a forbidden palace for champagne aficionados. It was time for the company to adopt a completely different approach towards the market and its relationship with the environment. Both at internal and external level, a radical shift was made in the definition of Krug's consumer: from Krugists to Krug lovers. This meant that the firm committed itself to become a narrative system, telling brand stories and people stories as the backbone of its relationship with the external environment.

Managerial decisions, in this phase, aimed at sharing maison's culture and philosophy. This goal implied further autonomy from LVMH group strategies and synergies, with the development of independent product strategies, as well as a new communication strategy based on openness and generosity. The idea beneath the new communication strategy was the one of generosity: Krug Champagne shares its unique heritage, its unique vision of champagne and its ideals of perfection with all the enthusiasts.

From a dynamic capabilities perspective, these actions are relevant because, in this stage, management developed knowledge about the organisation's readiness to capture value from corporate heritage. Sensing activities involved gaining knowledge about the internal environment and making decisions about strategic direction.

Phase 3

Once the new meaning had been identified in a revisitation of founder's heritage and the business case for change had been set up, several actions were taken, by top management team and its consultants, that modified different parts of Krug's business model:

(i) <u>Relationships with external networks</u>: an open and participatory relationship with influencers was established by opening the gates of the company, for the first time, to journalists, writers and sommeliers who could visit wineries, cellars and wine yards. This decision generated more than a tension within the organisation, that perceived this disclosure as a violation of the secrecy legacy that was part of company's tacit culture.

(ii) In terms of <u>customer relationships</u> several actions were undertaken to provide a richer experience for customers. Among the most important ones, it could be cited the bottle ID code that was put on Krug's bottles. By accessing Krug's website, customers could access different pieces of information about the bottle that they are enjoying, the way it is made and the philosophy beneath it. The ID code evolved into a mobile app that tells the story of individual bottles through scanning a bottle's identification code, placed on its label. This activity required the digitalisation of a huge amount of information, disseminated all throughout the production phases, to make them available for consultation.

(iii) In terms of key <u>processes and activities</u>, Ms. Henriquez negotiated with LVMH larger portions of independence. As reported by former HR manager: "*A new structure was implemented by Maggie (Ms. Henriquez, ndr). As she wanted to have a great level of autonomy in Krug (100% autonomy) and to give the priority to the marketing function*". M. Henriquez, together with HR Director, decided to recruit 2 BDM (Business Development Manager) that represent Krug's ambassadors, in order to "evangelise" all markets with the new brand identity, based on the rediscovery of firm's heritage. In term of organisation, the department of oenology was modified by adding new roles and responsibilities. In particular, *Maison* Krug reinforced the role of the oenologue, by turning it into a communication ambassador. This profile could present his "champagne", his work and transmit Krug's values to the market.

During this phase, Krug Champagne had the first results of the new strategy with sales increasing from 5 millions € to almost 35 millions.

This phase was characterised by a huge effort devoted to use corporate heritage to mobilise and inspire the organisation and its complementors, in order to develop organisational readiness to capture opportunities. Several dynamic capabilities were put in

place: communicating the business case, aligning stakeholders, planning to execute strategy for providing structures for action.

Phase 4

Corporate heritage becomes the key tool of the transformation process to mobilise, motivate and inspire people to change. Krug's management decides to capture the corporate heritage value in these ways:

(iv) <u>Krug moved towards a "talent company</u>" by bringing the people that create the product under the spotlight, giving external visibility to roles such as the Caviste and the Oenologue as ambassadors of Krug's heritage. This required the dissemination of the Krug's diary (and its philosophy) within the organisation to create a proper internal culture based on corporate heritage. The turnaround required "*talent stories*", i.e. centring the organisation around excellence and unique skills that makes people working at Krug talents that innovate Joseph Krug's vision day after day.

(v) The rediscovery and dissemination of company heritage allowed reducing barriers between functions and organisational layers and having a better alignment of key processes. As stated, during interview, by Chief Caviste, Julie Cavil: "*In term of management, it was a new starting point. There was huge boundaries between different job positions: workers, white collars and managers. So it seems important to break these rules and help people to work together in order to recreate a real "maison*".

In this phase, Krug Champagne put in place dynamic capabilities as transformational capabilities. These capabilities supported the reconfiguration of business model components through alignment and realignment of tangible and intangible assets. In this phase, business model was innovated through reconfiguration of its existing components that were combined together in a different way thanks to the introduction of new meaning in the value creation process.

5.3. Findings

The analysis identifies four phases of business model reconfiguration process, based on corporate heritage rediscovery, through the role and the use of dynamic capabilities: rediscovery, sensing, seizing, business model reconfiguration. Table 5.2 shows the main findings in every stage of the proposed model, with a synthetic framework of the role, activities and results of different functional units. Such results put in evidence the organisational work of change management plan to support and implement managerial choices starting from the discovery of corporate heritage.

In every stage, different dynamic capabilities are orchestrated and managed to empower and help change management process around corporate heritage. Corporate heritage inspires this process but gives also direction and vision about what to do for reconfigure business model for a successful turnaround.

In the process of turnaround, the top management team activated dynamic capabilities through the exploitation of rediscovered corporate heritage. In particular, as reported in Table…, the process of turnaround went through four separated stages. During these stages top managers, consultants, c-levels as well as the rest of the company were involved in several actions and initiatives that progressively brought Henry Krug heritage to the centre of the stage and turned it into a powerful tool for business model reconfiguration and transformation to create new value for the market.

Phase 1: corporate or brand heritage is identified for managerial purposes such as brand repositioning or new source of organisational identity. Focusing corporate identity become the trigger for change management plan and rediscovery of corporate heritage could be found in a period of crisis or transition. Such crisis could be related to internal or external causes:

(i) Internal causes are related to conflicts with workers, unions or external stakeholders (low or decreasing acceptance from local communities, conflicts with media and social groups).

(ii) External causes might refer to poor market performance, lost of channel power, growing pressure from competitors.

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In order to face these tensions or explicit conflicts, firm's top management needs a support to clarify or redefine the identity of the company and state why things are made in a certain way within the organisation. Corporate heritage, with its characteristics of timelessness and authenticity, is perceived as a very powerful tool for corporate realignment by the top management. In this stage, corporate heritage rediscovery could be supported by external actors such as scholars or consultants that legitimate this operation through their reputation: historians, representatives from not-for-profit organisations, cultural institutions or consultants they all help the rediscovery of the corporate heritage by:

(i) Providing legitimacy to the authenticity of the latent heritage and its interpretation.
(ii) Showing the relevance of such a heritage since it is approached and described through scientific and research criteria by experts in the field.

Several researches could be produced, showing the different facets of the heritage and its links to present company, employees, economic systems and social systems as well as the territory.

Phase 2: this is the phase of actualisation. Corporate heritage had been brought to light in the rediscovery stage and now it is subject to a process of interpretation by top management and consultants to adapt it to present organisational needs and situation. The actualisation phase is particularly relevant since top management team and its external support system links heritage to business model configuration and engagement mechanisms. A strategic intent is embedded in the company heritage by top management and supporting external teams in order to exploit it as a source of firm transformation.
In this stage, a re-interpretation, in the name of the authenticity of the rediscovered heritage, of organisational symbols and artifacts is possible. The dissemination of these symbols and organisational objects (e.g. visual identity, uniforms, images, working environments) together with explicit actions (e.g. cross-functional meetings, training programmes) aim at replacing the latent heritage with the rediscovered one within the organisation in the relationship with key external stakeholders.

Phase 3: this is the phase of functional engagement. Organisational resources and technologies are activated around the new strategic direction given by corporate heritage. The firm deploys resources to create and capture value from innovations. In this part of the

process of heritage activation, managers establish control or influence over processes and actors to foster changes in the desired direction.

Phase 4: Heritage is used as a driver for business model modification in order to better face internal and external challenges. Heritage could influence not only the organizational culture and its ability to generate a sense of belonging in the employees, but in a more radical way:

(i) key processes and the way in which they are organised. The rediscovery of latent meanings might modify practices and behaviours in key processes and across processes.

(ii) key assets: the way assets, both tangible and intangible, are perceived and managed within the organisation might be dramatically modified by the introduction of corporate heritage as a source of differentiation.

(iii) customer relationships: the definition of customer experiences and brand narratives are modified by the rediscovery of heritage. The level of customer engagement into corporate heritage might be enriched and new touchpoints could be added (e.g. company museums, events, dedicated blogs and social pages)

(iv) revenue streams: heritage could radically change the way a firm extracts value from the market by allowing: a progressive stretch of product lines; premium price positioning.

Chapter Six: DG MOSAIC Case Study

Business model reconfiguration through the introduction of a new meaning in the industry

6.1. Introduction

DG Mosaic is an Italian start-up company that brought a completely new perception of mosaic to the market, changing its applications and its functionalities. The firm is family owned and is part of a larger group of leading companies specialised in the high-security graphics and anti-counterfeiting graphics. High-security graphics is a sector where attention to detail, excellence of execution and the ability of dealing with complex design are all key competencies.

DG Mosaic was established in 2011 and was composed by only three employees and the entrepreneur, Mr. Luigi Radice. Together with the entrepreneur, his daughter and his son were involved in the venture. The son, Mr. Andrea Radice, was an architect that contributed part-time to the sales and communication of the firm, while the daughter was involved in the administration. The entrepreneur had been fascinated by the mosaics of Saint Sophia church in Istanbul and wanted to bring mosaic back to its beauty as a decoration for different environments. The entrepreneur background was in technologies for high-security graphics and his strong technological background brought to the idea of creating unique, hi-tech mosaics with a set of technologies that were totally new to the industry. The history of DG Mosaic could be divided into different phases that represent its evolution and its turnaround.

6.2. Foundations and growth

6.2.1. Incubation (2010-2011)

The first year of firm's activity was fully devoted to the development of TILLA system. TILLA is the smallest mosaic tile in the world: a glass fragment could be cut down to the dimensions of 1.5X1.5X1 mm. The reduced size of the tiles is not the only characteristic of TILLA: the mosaic weighs only 2.5 kg per square meter, which makes of TILLA the lightest mosaic system in the world. Thanks to TILLA characteristics, DG mosaic can offer high quality mosaics that can reproduce even the most complicated designs on several different surfaces. The design of the mosaic is rendered through a proprietary software (MOSAIC SW), while the mosaic production is achieved through several transformation processes that show a unique mix of hand-made and high-tech processes. TILLA is not only a final product, but is a totally new technology for the manufacturing of mosaic tiles. Part of the manufacturing process resembles the ones of microchip production and the different technologies applied are all covered by patents.

DG Mosaic was hosted in the same facilities of the mother company and even part of the personnel was working for both companies. The main interest of the entrepreneur in this incubation phase was devoted to continuous experimentation of new solutions and technologies to face all the possible challenges of custom-made mosaic. This huge effort ,in terms of technical innovation and high-quality product, turned TILLA into a very expensive material that was ideal for high end and made to order applications.

6.2.2. Entering the high-end mosaic market (2011-2013)

The firm's expansion in the early phases was not backed up by a formal business plans or marketing programme, but was characterised by a trial and error approach aiming at adopting and replicating (to a certain extent) the market strategies of many of the main players in the high-end portion of the mosaic industry. Key market players, such as Bisazza and Scis, adopted a market strategy that was characterised by:

(i)   Indirect distribution, through multi brand retailers that would sell mosaics together with other coatings and products for home and bathrooms decoration. The reason for this decision is that building companies show a preference in buying all materials under one roof and this implies a high level of concentration in the distribution, as mosaic is sold as part of a larger assortment of materials by resellers and wholesalers.

i)   Standardised and easy to use products are preferred by building companies as they do not require special skills from workers, or the adoption of particular building techniques. This is the reason why the mosaic industry, on the whole, had been very conservative in fostering product innovation. Complex mosaic solutions or technologies, that required innovative solutions, increased the costs of the building company and reduced its margins. At the same time, the limitations in the application of the mosaic to bathrooms and swimming pools reduced the interest of architects in this kind of material. Furthermore, final customers were more focussed on creating impressive interior design for the rest of the house and devoted a marginal attention to the rooms and areas where mosaic could be applied.

(ii) Direct relationship with final customers takes place through international fairs and exhibitions of bathroom products and coatings. In such events, architects as well s final users grab ideas and inspirations for new designs and are exposed to new design trends and motifs. Most of the sales effort was devoted to influence architects that followed final customers willing to customise coatings in their houses (mostly in bathrooms and swimming pools). Such architects might have very different approaches to the project and follow very different design styles. This was not perceived as a limitation by main mosaic producers, since the applications of the material were limited to very few portions of the whole housing project.

Original business model and go-to-market strategy

DG Mosaic value proposition was synthesised by the slogan: "the difference in art". The firm posed a strong emphasis on the customisation of the application as well as the fact that it was a luxury material with an artistic note in it. To back up its value proposition, DG Mosaic devoted a lot of effort in co-creating the final solution with their customers. This process was time consuming and very expensive as the final sale would take place only when the customer was satisfied with the solution adopted.

Russia and the Middle East were identified as key target markets. This decision is related to the fact that the entrepreneur assumed that in those regions there were customers that could afford the price of hand-made, technologically complex, made in Italy, luxury mosaics. Premium markets were considered crucial to fund the technological investments that had been put in place to permit the processing of TILLA tiles in all different shapes and colours. The selected applications for the mosaic were not different from traditional ones, focussing mostly on swimming pools and bathrooms. DG Mosaic hired a sales director that would develop direct contacts with final customers, through the participation of the firm to international fairs and exhibitions devoted to coatings and building materials. At the same time, DG Mosaic selected a Russian partner that could develop business in that region and opened a branch in Dubai, with a local partner, that was a reseller of coatings and building materials, with a show-room, where a Persian carpet made of TILLA was exposed.

The uniqueness of DG Mosaic manufacturing process, together with the characteristics of TILLA, required a specific training for installers and, at the same time, where hard to show through multi-brand, multi-category retailers. DG Mosaic was a perfect partner for complex projects, with sophisticated design and challenging applications, but this aspect was clashing with the business model adopted by the company. Installers and resellers, in fact, were reluctant to invest time and resources on a product that was perceived as complicated to handle and totally out of standard. Final users, on the other hand, were more concentrated on the main aspects of home design, considering bathrooms and swimming pools as less important parts of the overall architectural project.

In the first three years of activity, the expected economic results of TILLA were not achieved, and the continuous innovation on the manufacturing process, without a consistent grip on the market, made the situation very hard to bare for the firm. The founder of the firm was devoting a lot of time and energy in continuous innovation of the process and the applications, without a clear vision of the customers and the value proposition. Progressively, tensions emerged between Andrea and the founder about the way to manage the channel and the way to promote the product. This situation led to Andrea resigning and starting a business related to his background as architect. At the same time, the sales director resigned in front of the poor market results and growing internal tensions. During this period Andrea took the decision of following a master in business administration and, as he recalls it, it was a real eye-opener:

"The master was at the same time a relief and a tragedy: I saw a completely new way of approaching business, but I realised how inadequate the firm was. There was a whole world to build and I felt very anxious every time I came back from classes and entered in my office."

During an executive meeting at the firm, Mr. Andrea Radice proposed his plan for the future of DG Mosaic and asked the founder to step down and let him fully develop his vision about the future of the company. The founder accepted and DG Mosaic progressively separated itself from the mother company, developing a growth strategy aiming at making it totally independent. This strategic path brought, in 2017, to the creation of a financial holding that controls DG Mosaic and the former mother company as separated entities in legal and financial terms.

6.2.3. Turning mosaic into an expressive material (2014-2017)

In 2014 DG Mosaic started a process of reorganization that focussed on different actions. Such actions were related to an amelioration of present business and operating conditions and, most of all, to the identification of a different value proposition and a reconfiguration of business model components. The process started by bringing the cost structure and the customer base under control with a set of different initiatives:

(i) <u>Bring costs under control</u>. The emphasis on innovation, that was in the spirit of the founder (*"I see myself more as an inventor guy than a manager"*), and the strong efforts related to working with final customers for co-creation of custom-fit solutions made it very difficult to have a clear vision about the costs of the different phases of the manufacturing and sales and distribution costs. A consultant was hired to help the firm in keeping its costs under control and re-designing the pricing strategy.

(ii) <u>Develop a deep understanding of customers</u>. *"When I attended a course on CRM I was shocked. We (DG Mosaic, ndr) did not know anything about or customers. At the same time I realised that we worked in Moscow and in Dubai but we had no idea about the architects and designers that work in Milan, one of the design capital of the world. It was nonsense"*. A mapping of potential customers and influencers was put in place while two new salespeople coming from Luxottica and high-end marble producer were

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hired to bring a more structured approach to sales and establish relationships with architects and designers.

(iii) "*Stop inventing*". The manufacturing process, that had been exposed to continuous innovation during the first phase ("*we put machines on machines on machines...*" as depicted by Mr. Luigi Radice), was turned into something more stable and under control. The manufacturing process and the different innovations that had been introduced in the first phase were rationalised and brought to a maturity stage, in order to develop learning effects in the process.

Business model reconfiguration through the introduction of a new meaning for mosaic

Together with initiatives that introduced a managerial approach in the firm, a wider process of business model reconfiguration took place under the influence of a new value proposition and a completely new meaning for mosaic. In 2014, a business model innovation process was undertaken to fully exploit the potential of the TILLA technology.

Such innovation process was based on the idea of radically changing the way mosaic was perceived, turning it into an "*expressive material*" for creative applications outside the traditional ones. TILLA was to become the favoured material for architects and designers willing to express their creativity and innovative ideas. Mosaic was presented as a custom made solution at the service of creative processes, focussing on the unique qualities of TILLA that could be applied to several applications offering highly customised solutions.

The new value proposition was based on the idea of freeing mosaic of its present connotations and applications: mosaic could be an expressive material that could be applied to several different surfaces (from furniture to textile) and that can appeal to different generations of customers and designers. The way through which this value proposition was communicated is based on the creation of experiential spaces: i.e. projects that could put people in front of new applications of mosaic, creating at the seam time immersive experiences.

A first example of this shift in the way mosaic was handled by the company is the project of an acoustic sculpture (in the shape of a horn) by architects Sets and Shinobu Ito in 2015. The concrete for the acoustic sculpture, named "Carp", was created by Italo Rota and

donated to the Fondazione Museo del Vittoriale by Italcementi. DG Mosaic worked in partnership with the architects and created a mosaic fabric that was laid over the sculpture and then sewed at its base by a specialised upholster. The mosaic fabric does not show any sign of junctions and the surface is perfectly even and smooth without any sign or irregularity that are common when traditional mosaic is applied over curved surfaces.

This first experiment lead the way to more structured collaborations with designers and architects, always aiming at presenting mosaic as a material supporting creativity and innovation. The latest collaborations involved Studio Rotella and were presented at the Salone del Mobile 2016. Such new project included a mosaic basketball board, mosaic coated skateboards and African masks made with TILLA (Exhibit 6.1).

The vision beneath these initiatives is to create experiences that might appeal to Millenials and new generations of customers and designers. At the same time, through these collaborations, DG Mosaic identifies a set of aesthetic codes that fit with their value proposition. In the first stage of company growth a strong emphasis was posed on DG Mosaic ability to execute any kind of project and aesthetics. In this new phase DG Mosaic defines its role as an antecedent to the creative process. TILLA should not be perceived as a better performing mosaic, but as a material that can foster creativity and push designers into new applications and creative domains. Through this shift in the meaning associated to the material, DG Mosaic enters in the creative process and becomes part of it. This change requires a tighter integration with architects and designers and a similarity between the design offered by TILLA and the aesthetics at the roots of the projects.

The meaning of TILLA as a material and of DG Mosaic as a partner is, in this sense, co-created with emerging designers that show affinities in their aesthetics with the one of the firm and can bring TILLA into new domains and in touch with younger segments of customers that might be the future owners of super yachts or enormous villas.

Exhibit 6.1: DG Mosaic in Collaboration with Studio Rotella

DG Mosaic changed its value proposition from high-end Italian mosaics with an artistic flavour to "Material for design challenges". The new value proposition has brought with it a radical innovation of the business model. As reported by Mr. Andrea Radice during interviews:

> *"I wanted to make the whole thing more poetic. DG Mosaic should move from being a coating firm into a new meaning. This could be done by providing a different interpretation to the technological value of TILLA."*

The changes in the business model components, reconstructed during interviews with Mr. Andra Radice and Mr. Luigi Radice, could be summarised as follows:

i) Moving from indirect distribution to direct relationship with architects and designers. DG Mosaic proposes TILLA system directly to these subjects as a new material capable of helping them in their creativity and vision. As described in the previous pages, this integration takes the shape of sponsored collaborations, unique projects and co-creative initiatives. In this sense, TILLA becomes a key to access new esthetics in design projects.

ii) Product is promoted through "design consultants", that are specialised in the different industries where TILLA could be used.These consultants mix technical competencies with the ability of integrating mosaic into several different applications and projects in various sectors. DG Mosaic has been scouting architects and designers in the most creative ares of the world to select "material ambassadors" that could help the firm promote the application of TILLA in innovative projects and in different domains.

iii) The possible sectors of application of TILLA have been enlarged. DG Mosaic is no longer focussing on traditional applications of mosaics in bathrooms and swimming pools, but has progressively selected a set of industries where the application of TILLA could be perceived as core to the design and creative solution, making it a central element in the quality of the final result. These new industries range from Hotels and Resorts to naval leisure (super yachts); from Spa and wellness to fashion product design (shoes and accessories). In the fabric sector, DG Mosaic has recently developed different partnerships textile companies, such as Antonini and Dedar, to create and promote a textile application to TILLA fro interior design (Exhibit 6.2). To enhance its role of key component for creativity DG Mosaic has recently closed a collaboration agreement with Fendi in order to develop new fabric for the fashion brand. Recently DG Mosaic has been addressing the customisation segment of automotive industry in search of new and more challenging applications of TILLA. To address new sectors and applications, DG Mosaic engages consultants that work on the identification for different industries. Their role is not to support DG Mosaic technically, but to help the firm elaborate aesthetic codes for the different applications. The role of these consultants is twofold: on one hand they promote the application of TILLA in different domains, on the other they help DG Mosaic in understanding the aesthetic codes of industries and sectors that the firm wants to address. As reported by a consultant in trend setting for the automotive industry hired by DG Mosaic: *"Our role is to help the firm identify where TILLA can enhance the creative process in automotive design. We present them (DG Mosaic, ndr) the new trends in materials for the automotive industry and help them select potential partners for new design projects"*.

iv) DG Mosaic is no longer operating its markets on a geographical basis, selecting markets on the concentration of wealthy customers. The firm now operates in selected areas where innovations in design and architecture take place. These areas are called "Design Hubs" and refer to cities such as: Milan, Rome, Paris, London, Dubai, Hong-Kong and New York. These locations are the places where contemporary innovative design is situated and where it is possible to interact with visionary designers and customers willing to experiment this expressive material in challenging applications.

v) The progressive expansion of the firm into new applications required the establishment of a tight relationship with a network of external partners and suppliers that can integrate TILLA mosaic into new solutions. Such network includes high-end craftsman working with wood and metal as well as a partnership with a marble company that shares DG Mosaic vision on the experiential role and function of materials in design and creative processes.

vi) With the new value proposition, a different approach to communication was put in place. DG Mosaic is no longer present at fairs and exhibitions that deal with building materials and bathrooms accessories and products. On the contrary, the firm is investing in taking part to targeted events that could show TILLA as an expressive material for the creative community. DG Mosaic is present in events such as Salone del Mobile (Milan Design Week) and fashion weeks. Among communication initiatives it is interesting to highlight the establishment of TILLA home, a flat in Milan downtown where customers and designers could see all the different applications of TILLA from furniture to textile, from coating to lighting. The role of PR and Communication was added to the different firm's functions and a larger presence on social media has been planned. The new PR Executive comes from experiences with design companies "*my role here is to support the transition and help establish a right theme for the brand. My background experience helps me in dealing with rich meanings and creativity*".

vii) The reconfiguration of different business model components required, at the same time, an integration of the competencies that were present within the firm. There was a compelling need of supporting the transition from a technology based firm to a meaning based firm. Such transition brought several changes in the roles as well as in the people that operate in DG Mosaic. A first significant change took place in the manufacturing process where a huge effort has been devoted to change competencies, form merely related to the product technical issues to specific competencies for the applications. Such competencies were integrated by hiring people coming from connected industries that share the same approach to the material.   In terms of

communication and marketing, together with the new PR executive, a marketing manager with background in fashion was recently hired to help the firm to properly communicate its new complex meaning. At the same time, sales force has been enriched with the introduction of three new sales reps coming from industries and firms where designed was a crucial part of the value proposition. More precisely, one person comes from Luxottica (licensed eyewear products), the other one from a leather company that is a supplier of luxury brands such as Frau and one form high-end marbles. These three profiles have been selected for their ability to deal with products and materials that should support a creative process and a brand narrative.

Exhibit 6.2: a fabric made with TILLA mosaic tiles in partnership with Antonini and an application in the fashion industry

6.2.4. Rebranding (2017-)

In September 2017 DG Mosaic modified its brand name to underline its changed value proposition and its vision of the role of mosaic in the creative and design process. The new name is "Mutaforma" (shape changer) with the tagline: "materiali aumentati" (augmented materials). This rebranding phase was triggered by three main evolutions that affected the DG Mosaic business model and its path of innovation.

(i) A new product line promises to expand the business of DG Mosiac into lighting. Among the various materials that are being tested for enhance TILLA performance, a very interesting application is the one of UV sensible coatings, which might interact with solar or electric light. Through this kind of surface it is possible to modify the colors or the design of the object or the wall that is coated. Linked to this innovation and supported by the partnership with textile manufacturer Antonini is the project of creating light sensitive curtains that might modify the atmosphere of rooms following solar light during the day or electric light. DG Mosaic ha reached such a high performance eleven with TILLA that mosaic tiles can now be applied to fabric so that it will be possible to literally wrap and wrap glass as if it was cotton or silk.

(ii) A completely new field of research is on eon molecular composition for TILLA instead of chemical ones. This innovation is still in the exploration phase, but it is very promising and might completely change the way the glass in mosaic reflects the light and the way colours are perceived by human eye.

(iii) DG Mosiac is expansing its product lines experiment different techniques and material that might bring the company beyond TILLA and the gala tile as their single core product.

(iv) More and more the firm wants to be part of the creative process providing co-created solutions and applications that can foster new ideas and projects. As stated during interviews by Mr Andrea Radice and his father: *"We want to remain charming for people seeking for inspiration and differentiation".*

A representation of the most relevant innovations brought to the business model by the change in the meaning of TILLA is reported in table 6.1.

Table 6.1: Major changes in DG Mosaic business model brought by the change of the meaning of mosaic

	Past business model	Reconfigured business model
Product applications	Bathrooms Swimming pools	Hotel and resorts Naval leisure SPA and wellness Fashion accessories Automotive
Intermediaries	Multi-brand, multi-category resellers	Design consultants specialised per application
Market identification	Geography	Design hubs
Value proposition	Luxury and Made in Italy	Customisation and creativity

6.3. Findings

The business model reconfiguration of DG Mosaic was put in place thanks to the sensing capabilities expressed by the entrepreneur and mostly by his son, Mr. Andrea Radice, and his staff that have progressively overturned the perception of the mosaic as a traditional material, unable to fit in creative and modern projects.

"At the root of what DG Mosaic has achieved till now there is the attempt to free glass mosaic from usual clichés. Mosaic becomes a super technological material for architecture and design: the renewed symbol of a millenary tradition".

Seizing competencies have been acquired in several ways during the different phase of DG Mosaic growth:

(i) During the first stage of growth tensions emerged between the founder of the firm and his son. Thanks to a master programme in business administration Mr. Andrea Radice combined his background as an architect with a managerial view of DG Mosaic and a vision towards the market of mosaic.

(ii) The integration of existing technical and technological competencies of the first phase with ones more related to understanding complex meanings in the second phase enriched the firm with a unique capacity of dealing with innovation through the lens of new meaning.

(iii) The constant interactions with "design consultants" enable the company to transfer its value proposition into new projects, applications and industries. The creation of this growing network of specialists is based on the shared new vision about what mosaic can do for creativity.

The reconfiguration of business model components was achieved through the transformation capabilities of Mr. Andrea Radice and his staff. Such capabilities were orientated by several factors:

(i) The fact that to bring a new meaning into the mosaic market a strong emphasis should be given to the ability of the firm to deliver its value proposition and less on its ability to perform technologically.

(ii) The ability of the top management team to see the firm as a complex system that needed to be aligned towards the new meaning of mosaic.

(iii) The progressive diffusion of the new meaning as a trigger to reconfigure processes and align pre-existing business components.

The transformation capabilities are related to the project culture that is widespread all throughout the organisation. In this sense, the co-creative approach to the identification of business opportunities, projects and applications for TILLA has created an organisational environment that is open to take risks and adopt continuous experimentation.

Chapter Seven: Findings and conclusions

7.1 Introduction

The purpose of the exploratory research, with the following collection of three case studies, is to reconstruct the way through which top managers operate to bring "meaning bases" innovation into the firm. This kind of innovation impacts business models, are reconfiguring them during the innovation process. In order to modify business model components, dynamic capabilities are put in place. These capabilities are composed by routines that operate differently, depending on the nature of business model innovation and the process that generates it.

These research issues are transformed into the following research questions:

Q.1: Do top managers engage in business model innovation when shaping new meanings for the offer of their firm?

Q.2: Do managers consciously modify business model components to establish new value propositions (offers) based on new meanings?

Q.3: Do managers consciously employ dynamic capabilities to support business model innovation related to the offer of a new meaning for consumption?

Q.4: How are such dynamic capabilities managed by the organisational actors involved in the innovation process?

In order to address these research questions a case study based research, with exploratory purpose, was adopted. The reason for the selection of this research methodology rests in the fact that there are no previous results on this subject that might be validated through further investigations, while the theoretical frame of reference for this subject is still in an evolutionary phase. Moreover, the constructs at the base of the research are at the intersection of different disciplines and fields of study, making the adoption of an explanatory approach very difficult when dealing with cases.

The approach to business model innovation and its relationship with dynamic capabilities developed by Saebi (2015) is adopted as a theoretical starting point for the investigation. This approach suggests that business model innovation could be clustered into three different archetypes:

i) Business model evolution;
ii) Business model adaptation;
iii) Business model breakthrough innovation.

The differences between these archetypes refer to:

i) The nature and characteristics of the expected output of the business model innovation process;
ii) The nature and scope of the change brought to the firm by such process;
iii) The degree of novelty of the business model innovation for the firm and for the industry;
iv) The frequency of business model change induced by the innovation process.

Following Saebi (2015), organisational readiness, supported by dynamic capabilities, is a key factor for successful innovation. Dynamic capabilities operate through routines that assume different aspects and characteristics, depending on the nature of the business model innovation. On the whole, dynamic capabilities, as stated by Teece (2007), could be clusters into three different families:

(i) Sensing capabilities that enable the firm to search for emerging insights and trends;
(ii) Seizing capabilities that allow the firm to define the business case for the innovation and determine its readiness;
(iii) Transformational capabilities, that enable the firm to reorganise its business model components, through reconfiguration processes as well as the introduction of new components, to adapt them to the new value propositions.

Dynamic capabilities operate in different phases of the business model innovation process and are present in all the three business model innovation archetypes presented in the model. There might be a predominance of a sub-set of dynamic capabilities in some phases of the innovation process or in some archetypes but, on the whole, dynamic

capabilities are expected to operate, in an integrated and interdependent way, in supporting business model innovation processes.

7.2. Key findings

The analysis of the three cases, presented in the previous pages of this work, shows the existence of differences and commonalities in the way dynamic capabilities are activated to generate different kind of business model innovation, triggered by the adoption of a new meaning as the basis of the value proposition. At the same time, the results challenge Saebi's (2015) model that was adopted as a framework for the investigation. The findings provide meaningful insights on the research questions and might stimulate further researches on the subject.

Key findings could be clusters into the following groups and will be analysed separately in the next pages of this chapter:

(i)   The role of meaning as a source of business model innovation;

(ii) Top managers' role in fostering business model innovation, based on the introduction of a new meaning, as the basis of value proposition;

(iii) Role of dynamic capabilities in the business model innovation process and the presence of dominant sub-set of capabilities;

(iv) Role of external consultants and informants in supporting business model innovation and the activation of dynamic capabilities;

(v) The emergence of meaning interpretation and exploitation as a meta dynamic capability of top mangers.

(i)   **Role of meaning as a source of business model innovation**. The three different cases, analysed in the previous parts of this work, show how meaning played different roles in fostering business model innovation. These different roles refer to the way in which meaning contributes to the creation, or definition, of a new value proposition for the firm and its brand. In the case of DC Mosaic, as well as in the one of Krug, top management saw the adoption of a new meaning as a way to move the firm into a new competitive position. This competitive position implied the reconfiguration of

business model components, more than the introduction of new components or the replacement of some parts of the business model. The meaning searched and selected by top managers was used to show the organisation a new path, a different and better way to conceptualise existing products and services offered by the firm. This role of meaning in the innovation process could be defined as *Pattern Changing* (PC). PC meaning transforms the way a company perceives its offer and provides a new and convincing interpretation of the value of products and services. This new interpretation could drive consensus through the exploitation of heritage and the mythical figure of the firm's founder, as in the case of Krug Champagne, or through the introduction of new style an aesthetic codes that enrich the products, as in the case of DG Mosaic. In both cases, the new meaning changes the perspective through which employees and stakeholders look at existing products and services. This perspective supports the new value proposition for the brand. Consequently to this change in the perception, managers reconfigure business models to support the new value proposition. In the case of Eataly, it appears that the role top managers attributed to new meaning in the innovation process is more complex. In the first run, Eataly adopted a radically new meaning for food shopping and consumptions, linking such activities with deep cultural connections to local tastes and products. This meaning shaped Eataly's value proposition and its original business model. In this case, meaning played the role of Pattern Changing element. Nevertheless, the role of meaning progressively evolved from the one of PC to an element that permitted to the firm to operate and define its pattern of growth without a template and a replication strategy, as it would be common for mass food retailers. In this second case, the meaning adopted played the role of enabler of constant innovation through the reconfiguration of business model components during the different store openings, while permitting the firm to operate in an effective way. This aspect of the role of meaning could be defined as the one of *Constant Innovation Enabler* (CIE). CIE creates a common approach for the people that are involved in the innovation process at all levels in the organisation. It helps in shaping an implicit "common practice", which is adopted by the actors involved in store openings to face emerging, new challenges and define possible solutions in complex environments. CIE is the frame through which information flows are managed within the firm in a highly unstructured way. As reported by one of Eataly's category manager: "I am never worried about information, this is an open company…you just have to ask to have the right information". This statement refers to several aspects of the decision making process.

first of all, it implies that information could be transmitted through the organisation without loosing its meaning or significance. In other words, information become "the right information" through an unstructured process. Since new openings highly differ one form the other, the "right information" is the one that recognise such complexity. The element that reassures the category manager is the presence of a shared idea of what selling food at Eataly's should look like and what is needed to make it work.

(ii) **Top managers' role in fostering business model innovation based on meanings**. The three cases described in the previous parts of this work clearly show that top managers are conscious of the impact that an innovation based on meaning has on business model and its components. Despite this common understanding of the implications of business model reconfiguration, the cases show that top managers adopted different conducts in dealing with the role of meaning in the business model innovation process. In the cases of Krug and DG Mosaic, that depict the role of meaning as the one of Pattern Changer, top mangers strove to identify a suitable meaning for the turnaround and then transfer it to the organisation. They considered these activities as the most important ones and the ones that absorb most of their energy. Top managers sought a way through which a new meaning could change the value proposition of the firm and, by doing so, modify its competitive position. Such activity took the form of a rediscovery of firm's roots, like in Krug Champagne, or the re-interpretation of a whole product category like in DG Mosaic. In both cases, top managers devoted a lot of efforts in the dissemination, such efforts include:

(i) *The definition of a proper set of symbols and artefacts that might help the dissemination of the new meaning*. Such is the case of Krug's founder notebook or the re-branding of DG Mosaic with the far more evocative name of Cambiaforma that better represented the meaning that the firm associates to mosaic. Special project and initiatives, like the maison open gate policy for Krug Champagne, or the Carp sculpture and the mosaic covered skateboard for DG Mosaic, were other tools used to spread the meaning within the organisation, making it tangible for employees as well as for stakeholders.

(ii) *The insertion of actors, that share a common vision about the new meaning and can understand its managerial implications, in key managerial positions*. In maison Krug , the new roles of caviste and oenologue as brand ambassadors were key to the dissemination of the new meaning associated to the brand and were part of the larger "talent company" programme. In DG Mosaic, the selection of new profiles that shared a common "feeling about what the product means" with top

managers is described as a crucial aspect of the turnaround. These new profiles played the role of "antennas", disseminating the new brand meaning, while declining it for the application to different functions and roles. This role of translators was reported in several interviews in Krug: "Maggie (Ms. Henriquez) spent a lot of time with us telling her ideas…she gave new meaning to the actions we do on a daily basis… so that now we know why we have done thing in a certain way over the years".

On the whole, the role of top managers in this context could be described as the one of *storytellers*, making sense out of a different set of meanings and then preparing the different organisational actors for operating consequently.

In the case of Eataly, the role of top management shows several differentiating aspects compared to the other cases. These differences could be clustered as follows:

(i) *Preserving the meaning through business model reconfiguration processes*: In the different process of new store opening, top management team devoted a lot of efforts in declining Eataly's idea of food consumption in the different local cultures. The symbolic role of the store, the composition of its assortment based on local tastes and suppliers were not meant to symbolise a new meaning for local communities but to interpret Eataly's overall meaning so that it might be intelligible for local actors.

(ii) *Meaning is used as a pre-condition for local innovation*: top managers consider Eataly's meaning associated to local food and rich experiences in food shopping as a sort of "organisational glue" that permitted to configure stores around local conditions and tastes without loosing the strength of the overall brand value proposition and the efficiency of the core processes.

Top managers, in the case of Eataly, played the role of process enablers through the exploitation of meaning as a way of aligning functions and organisational goals through the innovation process.

(iii) **Role of dynamic capabilities in the business model innovation process and the presence of dominant sub-set of capabilities**. The hypothesis, introduced by Teece, that dynamic capabilities operate in a comprehensive and integrated manner is partially confirmed, since it is possible to identify a core sub-set of dynamic capabilities that

characterises different types of business model innovation. In fact, in the case of innovation triggered by a pattern changing meaning, top mangers focus on sensing and seising capabilities to activate business model innovation. The identification a new meaning and its transformation into part of organisational culture is described by top managers as the key part of the turnaround process. Great emphasis is posed on the effort of making the firm "see differently" and mobilise resources, while the consequent business model innovation is often depicted as the operationalisation of the meaning. Business model reconfiguration takes place once the organisation is "ready" to operate, with a clear understanding of the implication of the adoptions of the new value proposition.

In the case of Eataly, dynamic capabilities are orchestrated in a different way. Seising and sensing capabilities are perceive by top managers as "continuing" routines, operating in a persistent way in the organisation, preserving its readiness to innovate. Transformational dynamic capabilities are only activated in every new store opening process in a project management perspective. Since Eataly innovates its business model by adapting new stores to local conditions, sensing capabilities are needed to scout local tastes and select local suppliers, at the same time seising capabilities are used to integrate resources for the rapid activation of the store opening process.

Transformational capabilities are activated when new openings take place and allow the firm to combine the different components of the business model, depending on local conditions. Such sub-set of dynamic capabilities allows the firm to operate in a very fast and effective way in its adaptation to local conditions. Transformational capabilities relies upon the continuous presence of the other two sub-capabilities. Top management poses a stronger emphasis on the activation of transformational capabilities when operation business model innovations related to new openings, while it cultivates the other two dynamic capabilities as preliminary operative conditions that are continuously present in the firm.

(iv) **Role of external consultants in supporting business model innovation and activating dynamic capabilities**. Depending on the role of the meaning in the innovation process, external consultants play different roles in the business model innovation process. In the cases of Krug Champagne and DG Mosaic, consultants and external experts support the firm in discovering a new meaning for its offer, while in the case of the

relationship between Eataly and Slow Food the role of the latter is more complex and articulated. Slow Food helped shaping the vision about food that is at the roots of Eataly's value proposition as well as its approach towards food retail and the relationship with suppliers. In this sense, Slow Food role could be assimilated to the one assumed by other external informants in the other two cases. It is of the utmost relevance to highlight how Slow Food is involved at another level of collaboration with Eataly. In fact, Slow Food supports the firm during opening processes. In this case, Slow Food places the role of facilitator in the reconfiguration of business model components. This role is acted through the support to the selection of local suppliers, their integration with the assortment platform and the analysis of local tastes and food cultures. It could be argued that, at the store opening level, the role of Slow Food is the one of supporting and activating transformational dynamic capabilities of the firm.

(v) **Meaning interpretation and exploitation could be defined as "meta" dynamic capability**. One of the most interesting aspects that emerges from the analysis of the three case studies is the role played by meaning interpretation and exploitation as a key dynamic capability enabling business model innovation processes. More precisely, the ability of top mangers to use "meaning" for different business model innovation purposes is in itself the dynamic capability that activates all the others. In this sense, such ability could be defined as a "meta" dynamic capability. The three cases presented all show how top managers consciously used meaning as a mean to foster business model innovation and create new value proposition for the firm.

In the case of Krug Champagne, Ms. Henriquez devoted a lot of energies in fuelling the firm with a rich meaning that stems out of its past and the very words of its founder. Her main concern was to find and elaborate a meaning capable of aligning the organisation around a new perception of its role in the champagne industry.

A similar and even more dramatic situation is the one of DG Mosaic. Mr. Andrea Radice overcame a managerial conflict with the founder precisely around the meaning that should be attributed to mosaic. The introduction of a new way of envisioning the product brought to a radical reconfiguration of business model components.

Eataly is another vivid example of the role that meaning assumes in generating business model innovation processes. The organisational dogma of a "no model company", built

around the idea of food consumption as a cultural experience, has often been repeated by several actors during interviews. Eataly is quintessentially driven by this meaning and configures business model components around it in a very dynamic manner.

What seems to be a common element, in these three cases, is the fact that top managers show a high degree of competence in searching, defining and exploiting meanings as a strategic organisational resource. This capacity to activate business model innovation through the adoption of new meanings has all the characteristics for being classified as a high-order dynamic capability. As described in other parts of this work, in fact, authors such as Teece (2007) agree upon some common aspects that determine dynamic capabilities as a construct. Such aspects could be applied to the ability of top managers to interpret and activate new meanings for the purpose of business model innovation:

(i) Dynamic capabilities account for the ability of the firm to evolve and adapt to changing environmental conditions in a purposeful manner: such is the case of the use of meaning for business model innovation analysed in this work. Top managers clearly activate the innovation process, thanks to their ability to purposefully adopt a new meaning in order to cope with environmental changes, namely customers' preferences and tastes.

(ii) Dynamic capabilities permit to the firm to modify its existing set of competencies. This statement could be applied to the activation of new meaning to trigger innovation. In the cases presented, business model components and the competencies supporting them, have all been modified through the introduction of a new meaning as source of value proposition. The case of Krug Champagne shows vividly how meaning was used for realigning processes but also for modifying functional profiles and skills : such is the case of the professional role of the caviste, that was radically modified by the introduction of the values of generosity and openness. Such values are present in founder's diary and have been used for the purposes of turnaround activation. In DG Mosaic, a new meaning modified the characteristics of technical and technological skills. The experiemtnaiton of new solutions and the high quality of the technological processes have been enriched, with the idea of creativity and style as elements that cannot be separated form the technological ability of the firm to create its mosaics. Eataly reconfigured its business model components and modified the competencies and skills required for traditional retail roles, such as the one of category manager. All

these changes took place in the light of the transformation in the meaning associate to food consumption.

(iii) Dynamic capabilities impact the ability of the firm to modify its business model. All the three cases presented in this work show the way through which the introduction of a new meaning activated a reconfiguration process of the business model components. There are differences in the way through which new meaning affected business model reconfiguration and integrated with other dynamic capabilities but, despite these differences, the adoption of new meaning brought with it a conscious redesign of business model architecture.

(iv) Dynamic capabilities are complex set of routines. As presented in the previous pages, the adoption of a new meaning is complex and requires the activation of different set of routines and the involvement of different profiles at top management and innovation team level. At the same time, the identification of the different ways through which new meaning adoption might affect business model reconfiguration and the dynamic capabilities beneath it (i.e. new meaning as pattern changer or configuration enabler) represents a clear indicator of the existence of sub-capabilities and routines.

It is now possible to associate the introduction of new meaning by top management to a dynamic capability. The characteristics of this dynamic capability make it possible to define it as meta dynamic capability. The reason for this definition is related to its role in giving a strategic intent to the other dynamic capabilities. In fact, as it emerges from the cases, top managers use, in different ways, the introduction of new meaning as a prerequisite that gives sense to: (i) the search of market insights (sensing dynamic capability); (ii) the engagement the organisation in the turnaround process (seising dynamic capability); (iii) the reconfiguration of business model components (transformational dynamic capability).

The quality of this meta dynamic capability is directly influenced by the mix of experiences and relations in top managers' background. The relationship of Mr. Oscar Farinetti with Slow Food, as well as his ability in using socially situated meanings to promote his business (the category of "optimism" as a way of selling electronics), offered him the chance to see food consumption from a very different perspective in comparison with traditional mass food retailers. In a similar way, the professional background as architect of Mr. Andrea Radice helped him in interpreting the role of mosaic as an expressive material at the service of creativity and design. The deep knowledge of LVMH

wine brands and the way they were created helped Ms. Margareth Henriquez to properly frame the role of heritage in Krug Champagne and devote resources and efforts in that direction.

The new meaning for the value proposition of their firms helped, these top managers, in pointing the sensing dynamic capability towards aspects that are not usually perceived as sources for innovation in their industry: (i) in mass retail most of the innovation efforts are devoted to the selection of highly replicable formats; (ii) in the coating industry, the easiness of handling a new material is where most of the attention is devoted; (iii) in wine and spirits, the search for emerging occasions of use and new trends is a key innovation driver. All these examples of sensing capability activation have something in common: they do not challenge the perspective, the established way through which firms scout for new ideas. In this sense, the adoption of a new meaning activates the sensing dynamic capability in a unique manner, somehow pushing the firm to "see differently" before searching for insights. This implies that the exploration   process, the scanning of the external environment in search of weak signals that can show the existence of market opportunities, starts from a radically new perspective.

The dissemination of the new meaning becomes a prerequisite for organisational change. Through training courses and in-store informal training Eataly aims at developing a common perspective on the role of local cultures in food consumption. In the same way, Ms. Henriquez spent hours talking with all the levels of the organisation to allow her vision about the role of heritage cut through the firm and overcome barriers and skepticism. In DG Mosaic, organisational readiness to innovate is achieved through hiring people that have a strong background in dealing with complex meanings, such as in the case of fashion brands. In all these cases, seising is directed by the adoption of a new meaning, which modifies existing ideas and practices and, at the same time, supports the organisational readiness to change.

Transformational dynamic capabilities are activated to combine business model components in a way that fits the new value proposition. Such configuration is strongly influenced by the fact that business model components play the role of a sort of "grammar", that translates the meaning adopted for innovation into managerial processes. Business model components are used more as a Tangram, to come up with different shapes adapting to various environments, than as a fixed jigsaw that must be

replicated obsessively to support profitable growth. The glue that keeps this Tangram together is the adoption of the new meaning. In this sense, the transformation capabilities are enriched with decoding aspects. Meaning is decoded and transformed into combinations of business model components that, at their turn, create a suitable offer for customers so that the meaning might be experienced through the interaction with firm's touch points.

A representation of the relationships between meta dynamic capabilities and dynamic capabilities in the business innovation process is presented in exhibit 7.1.

Exhibit 7.1: the relationships between meta dynamic capabilities and dynamic capabilities in the business innovation process
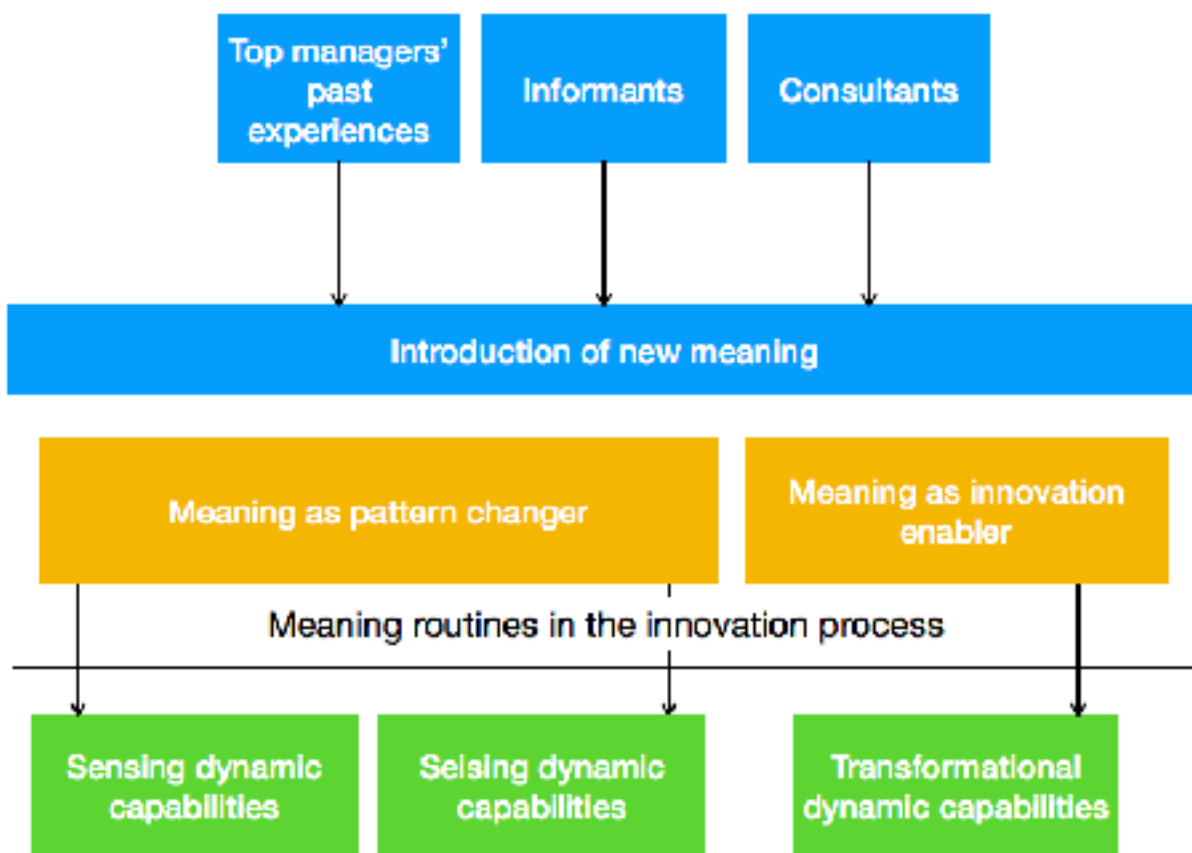
7.3. Managerial implications

Despite the exploratory nature of the study, it is possible, at this stage, to draw some managerial implications of the research results. Implications for a business model innovation driven by the adoption of new meaning are drawn. A business model innovation that is coherent with the new meaning has a significant impact on customers, as well as organisational members. The success of the turnaround is vey much dependant on the activation of dynamic capabilities by the new meaning. The results of this research might foster the discussion and stimulate further research on key managerial issue that could be summarised as follow:

(i) The role of meaning adoption in bringing innovation in mature markets. While most of recent literature on business model innovation has devoted a lot of attention to the determinant role of technological, and mostly digital, innovation, there are several industries where such kind of innovation might hardly take place. The research findings suggest that, in mature markets, value proposition could be innovated through the exploration of alternative meanings for the offer. Such meanings might be related to a reinterpretation of heritage, local cultures and craftsmanship. In this sense, the most important take out of this research is that such elements of innovation should be addressed through a business model reconfiguration more than with mere marketing and communication activities. This because meaning has a deep strategic and organisational impact that cannot be misunderstood in the innovation process.

(ii) The adoption and implementation of new meaning is a meta dynamic capability. At present, several managers are struggling with concepts such as deign thinking and creativity to bring innovation into their firm. One of the limitations in these approaches is that they focus mostly on the prototyping phases of new ideas and on a set of techniques to make managers think like designers. There is a poor understanding of the integration between the business model prototype and its implementation, and of the way through which managers might switch from a designer mindset to a developer mindset and then back again. The role played by dynamic capabilities in linking the prototyping phase with the deployment one allowing business model to transform and guaranteeing the proper organisational readiness is an alternative perspective on the subject. At the same time, the fact that meaning related dynamic

capabilities play a role in supporting the whole transformation process offers managers a chance to link the dots in the innovation process.

(iii) <u>New meaning and brand meaning are strategic elements that directly impact they way business models are configured</u>. Repositioning strategies, based on the exploitation of heritage and craftsmanship or in the reconstruction of the concept of authenticity, are very common in the fashion, design and luxury sectors and are now becoming mainstream in industries such as food, tourism and cultural initiatives. Despite this growing emphasis on these differentiating factors there is still a poor understanding of the relationship between these new meanings and the transformation of the business model supporting the offer. Most of the researches on these subjects focuses on communication and branding aspects more than others. The results of the work presented in these pages allow managers to acquire a more comprehensive vision of the process of innovation that is underneath the adoption of such meanings as differentiating factors. In fact, to be effective, an innovation based on the meanings listed above requires the successful transformation of the business model components and the presence of adequate dynamic capabilities to support the turnaround. The introduction of new creative directors and designers to push new meanings inside the firm and its value proposition poses a strong limitation in the ability and the readiness of organisation in configuring an adequate business model.

7.4. Limitations and future researches

The exploratory nature of this research poses some limitations on the generalisation of the results. Such limitations are related to the methodology adopted as well as the type of cases selected for the research purpose.

(i) In fact, cases where selected for their purposefulness and their ability to show, at a very high level of visibility, the characteristics of innovation that where the object of the observation. It is still to be explored the presence of similar patterns in firms that operate with a lower intensity of the meaning as an innovation driver.

(ii) Secondly, a relationship between the introduction of a new meaning, the activation of dynamic capabilities and business model innovation has been established in a comprehensive model. There is still to explore, at a deeper level, which are the

organisational conditions that enable these mechanisms and how can they be turned into explicit processes to support innovation.

(iii) Thirdly, the adoption of new meaning for business model innovation purposes emerged as a meta dynamic capability but, due to the limited number of cases and the nature of the research, there is still an open question on how such capabilities can be built and sustained.

(iv) Different routines, related to the adoption of meaning as dynamic capability, were identified (pattern changer and innovation enabler) but the limited number and cases and the level of the reconstruction does not offer a detailed description of how such capabilities are implemented and integrated with the other dynamic capabilities.

These limitations to the generalisation of the results offer the change to proceed with further investigations on the subject. It is possible to identify three possible areas of research that stem out of the present results:

(i) <u>How the meta dynamic capability of meaning adoption for innovation purposes is generated within organisations</u>. The research show the relevance of informants, consultants and the past experiences of top managers as main factors that contribute to the creation of this dynamic capability. It could be of interest to proceed with a deeper analysis on the effective presence of such factors in other contexts, their strength as well as the relationship between them.

(ii) <u>Which is the process of meaning generation and which are its characteristics.</u> The presence of such a process has been identified during the research. It would be of great interest to conduct future studies that focus on this aspect of the innovation process, reconstruction the micro process of meaning formation at top management level and the different phases that characterise it.

(iii) <u>The assessment of the readiness of organisations for the adoption of a meaning based business model innovation</u>. A possible scorecard that assesses the prerequisites for the success of this kind of innovation is another area of future research that might help in verifying the replicability of this type of innovation in different contexts and industries.

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