

2017

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Recommended Citation

Rumble, R. and Minto, N.A. (2017), "How to use analogies for creative business modelling", *Journal of Business Strategy*, Vol. 38 No. 2, pp. 76-82. DOI: 10.1108/JBS-09-2016-0091

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How to use analogies for creative business modelling

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Introduction

Creative, unusual and novel business models are sources of competitive advantage. Companies that operate differentiated business models are better able to outperform their competitors (Teece, 2010). The challenge for entrepreneurs and visionary incumbents alike is to challenge industry norms and come up with creative business model ideas. Analogical reasoning – applying insights from one setting to another – is a useful method for creating novel business model ideas. By learning about businesses in other industries, managers can transfer these ideas and design new business models that are unique in their industry. However, it is not enough to observe other businesses; they must also be interpreted.

To demonstrate this point, consider the McDonalds business model and how you might emulate it in your own organization using insights from that model. Perhaps considering the model prompted you to think about how the products or services you offer could become more standardised to achieve economies of scale. Maybe it triggered other insights, such as adopting franchising for rapid geographic expansion. You may even have asked others for their opinion. Someone with a marketing background may think about appealing to a mass-market, multinational audience, whereas someone working in logistics may have contemplated accelerating the speed of service. As this simple thought-experiment shows, the same business case can generate not just one but multiple insights and challenges.

How managers interpret what can be learnt from business cases is often coloured by their underlying assumptions. In particular, managerial attention is often focused on industry-specific problems and solutions. Left unchallenged, these underlying assumptions can limit the potential of business cases to aid business model design or innovation. To achieve more creative insights, managers must look beyond their first impressions for non-obvious interpretations.

This paper begins by outlining the need for an overarching approach when using business model templates and the benefits of analogies in business modelling. The need for re-interpreting analogies is an important, yet often neglected, step for creative business model ideas. A method that enables managers to apply these insights in practice is then presented.

Business model design tools

Managers are spoilt for choice with tools, templates and frameworks to help them design new business models. However, the value of a management tool does not lie in the tool itself but in how it is used (Jarzabkowski and Kaplan, 2015). The most common business model design tools are templates such as *Business Model Canvas* (Osterwalder and

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Pigneur, 2013) or the *Business Model Kit* (Board of Innovation, 2016). Such templates enable managers to outline and communicate ideas to colleges and stakeholders (Doganova and Eyquem-Renault, 2009), but it is the way that these templates are used that determines the likelihood that any of those ideas will be truly creative. Sketching out ideas does not in itself help identify and challenge any underlying assumptions managers might have (Levinthal and March, 1993). Without a reframing of beliefs, business model designs are likely to replicate and conform to industry norms (de Jong and van Dijk, 2015).

This is not to diminish the creative potential or the experiences of managers involved. On the contrary, these attributes are central to the design of creative business models. However, to invoke and integrate managerial experiences, the design process should encourage a period of critical reflection, rather than simply listing ideas.

By integrating a range of insights from the business model and innovation literature, we present a technique that we term multi-analogy modelling to help managers notice, consider and develop new business model ideas for their companies. By looking across industries, nations and time periods for insights and then applying them to current situations, managers can design business models unique to their industry, learn from the successes of others and avoid their failures.

Modelling by analogy

Many of today's highly successful firms were able to disrupt, create and capture markets by learning about business models in other industries, then adapting and applying them to their own. For instance, the founder of postal-delivery snack company Graze based his company on his previous venture, LoveFilm. Rather than reinventing the wheel, he was able to take and manipulate key elements of the LoveFilm model so they were applicable to the snack market. Graze then competed with other snack providers on convenience, selling to a nationwide audience without stores or middlemen, while benefiting from steady subscription-based income. In 2014, at six years old, it had sales of £68m (Daneshkhu, 2015). Similarly, Nespresso triumphed in a mature coffee industry by adopting elements from Gillette's razor blade model (Matzler *et al.*, 2013). The value of analogical reasoning in business model design is confirmed by a recent survey showing that 60 per cent of young entrepreneurs now imitate business models from different domains in their new ventures (Enkel and Mezger, 2013).

Generally, analogies have been shown to help decision-makers deal with complex problems in situations of uncertainty (Chan *et al.*, 2012). In the business context, managers can incorporate external sources of information to positively affect their firm's innovative activities (Horváth and Enkel, 2014), with cross-industry innovations resulting in more creative and radical outcomes (Enkel and Gassmann, 2010). The use of analogies in product design has been shown to trigger breakthrough ideas in product and business model innovations (Enkel and Mezger, 2013; Herstatt and Kalogerakis, 2005). One key reason for this is that other industries are not constrained by the same cognitive (Levinthal and March, 1993) and structural (Christensen, 2013) rigidities, and so, different species of business model are more likely to evolve. Looking for inspiration beyond industry boundaries gives managers a glimpse at how business can be done under different assumptions.

One of the great strengths of the business model concept is that as simplified representations, business models can act as “recipes” to imitate or avoid (Sabatier *et al.*, 2010), enabling managers to transfer business models from one industry to another in the face of disruption or opportunity (Sabatier *et al.*, 2015). Mullins and Komisar (2009) demonstrate how analogies can be useful for determining the feasibility of business model ideas. Another benefit of using business analogies is in the management of complexity. Rumble and Mangematin (2015) found that the founders of structurally complex business models consistently did not use business model templates but instead relied on business analogies that they applied to new work settings.

Multiple messages

There is no one way to view a business, and we can take multiple lessons from the same story. In fact, managers will routinely use strikingly different analogies to describe their own businesses depending on the kind of message they want to convey. Despite this, texts on business model design tend to implicitly assume each business has “a” business model; a single, objective description of how it operates. This assumption hinders creativity in business model design by obscuring non-obvious and radically different questions and solutions that business models as analogies may inspire.

People are inclined only to notice certain things around them. The range of what we notice is called our attention perspective (Ocasio, 2011). This determines what issues we decide to tackle as well as the range of solutions we consider (Ocasio, 1997). In organisations, the attention perspective of decision-makers is influenced by the situations and contexts they find themselves in. Industry norms, institutional pressures and the intensity of competition have been shown to drive managers’ attention towards issues and solutions that have explicit or short-term relevance, at the expense of more radical, subtle or long-term solutions (Hung, 2005; Nadkarni and Barr, 2008; Vuori and Huy, 2016). Therefore, even when reasoning by analogy, managers are still inclined to:

- use a case to deal with industry/company standard issues; and
- notice solutions that resemble industry/company standard solutions.

By reflecting on these two points, the issues we consider and the solutions we notice, managers can consciously mitigate this inclination and seek out new kinds of questions and answers that will set them apart from their competitors and the status quo.

Keeping an open mind about the range of solutions is hardly controversial. Reconsidering the issue that needs to be tackled is, however, less obvious. Yet, reframing the issues that managers deal with is a key driver of radical (rather than incremental) business model innovation. Consider the following. Asking how to attract more customers, (perhaps the foremost management concern) is likely to lead managers to search for improvements to their value proposition or marketing message. Reframing the issue by questioning whether to keep your customers, however, will encourage managers to develop radically different solutions, such as turning customers into partners or resellers or forsaking the majority of their customer base to focus on tailoring high-margin services to a niche subset.

How to model via the multi-analogy approach

This paper is not the first to suggest a process of business modelling by analogy. Companies have been shown to enable cross-industry business model innovations through a general process of abstracting existing problems, identifying analogies and adapting them to their local context (Herstatt and Kalogerakis, 2005; Gassmann and Zeschky, 2008; Enkel and Mezger, 2013). This paper improves upon this method by developing both abstraction and analogy identification. It encourages managers to reconsider the issue that the case might remedy and expand and diversify the lessons they gather from it. The method can be used with a pre-defined issue to be resolved or used as an open, exploratory exercise.

Search for radically different types of business

This step comes before the “analogising phase” (see Figure 1). The search can focus on cases of noticeable relevance to an issue or can select cases at random to increase the likelihood of uncovering less-obvious solutions. To realise and challenge industry norms, it is helpful to look for examples of organisations that exist outside of them. This is not limited to looking across industries. Managers can find inspirational models by looking across borders; the mobile phone industry in Africa operates with a very different model to that of the West. Business models also change over eras and we can learn from history. Take the medieval apprentice guild model, which is seeing a revival in the UK as the government tries to encourage the development of manual skills. An active approach to business model search would be to browse specialist news sites such as *Springwise* that publish novel product, service and business model innovations. Business model databases such as *JustSuppose.eu* and the *Business Model Zoo* provide managers with a scope of diverse kinds of business models.

Interpret the case

This is the first step in the “analogising phase”. What first impressions does the case give? Use your understanding of your company and its environment to find insights in the case. It can be helpful to break a case down by asking in what ways it creates, delivers and captures value.

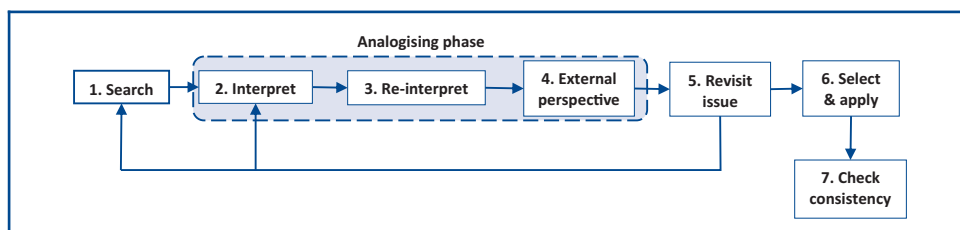
Reinterpret the case

This is second step in the “analogising phase”. Consider the different positions you held in the past. Would you have interpreted the case differently in one of those roles? Try to imagine yourself in other positions: marketing, finance, operations, etc.; would you notice different features in the case? What if you looked at the case as a consumer, a supplier or other stakeholder?

Get an external perspective

This is the third step in the “analogising phase”. Ask others for their impressions of what the key takeaways are from this case. People in different situations will notice different aspects

Figure 1 Multi-analogy modelling



to the case that are more relevant to them and that you may have overlooked. You can read how others have written about the case company in media and in blogs. Alternatively, you can use Web-based tools, such as *JustSuppose.eu*, that get managers to see business cases from new angles.

Revisit the question/issue

Having learnt what you can from the business case, next ask yourself if the question or issue you began with is relevant or interesting anymore. Perhaps you run a mass-market retailer and your initial question was “how do I get more customers?”. Yet your case demonstrates how to become successful in a niche market, in which case you might want to rephrase your question to “how do I target the right customers?” To answer a new question, you may need to go back to Step 1 and find a new case or to Step 2 and look for solutions in your case that are relevant to the new question/issue.

Select and apply

Using your knowledge of your firm and market, select those features from the business case that appeal most to you and apply them to a complete business model design. It may be useful to use a business model template in this stage to codify all of the key elements. You can alter a pre-existing model or model a new venture from scratch. Analogies can be transferred to different settings in a number of ways; they might be transferred directly in a copy-and-paste approach, the structural or functional features relevant to the problem might be transferred or the analogy might serve as an idea stimulus (Herstatt and Kalogerakis, 2005). This step is fundamentally creative because, although it takes an existing idea, it applies it to solve new problems and adapts it to function in new contexts, transforming it in the process. This step relies on a degree of expertise in both the underlying structural components of the issue and how the solution might be aligned with the idiosyncrasies of the new context (Enkel and Mezger, 2013).

Check for consistency

Once all the key elements have been considered, the model has to be checked for overall consistency. Some features of a case may be incompatible with an industry due to economic or regulatory issues, in which case they might have to be discarded (or the target industry reconsidered). Some transferred features may clash with those from the original business model, in which case, the manager needs to decide whether to adapt the new or incumbent elements (or both).

Managerial insight into the competitive environment is key during the initial steps of the method. The first interpretation of a business case (Step 2) should be grounded in an awareness of the fundamental issues. The same goes for the final steps, Steps 6 and 7. Managers' familiarity with their own organisation and the idiosyncrasies of their industry is essential for the workable application of business model elements from one setting to another, ensuring fit between the model and the environment and internal consistency between business model elements. The middle steps, Steps 3-5, rely less on managerial expertise and more on identifying and questioning implicit assumptions. The very first step, finding cases, may initially rely on managerial expertise to identify cases with obvious

relevance; however, a more exploratory approach in subsequent iterations can help managers unearth less-obvious solutions that may form the basis for a radical departure from standard competitor business models.

Conclusion

Business model design frameworks will enable creative design when used as part of a wider design strategy. Using business cases as analogies is a useful method to stimulate new ideas. However, the issues that business cases are used to solve, as well as the solutions we find in those cases, are influenced in part by industrial and organisational norms. By being aware of this and adopting a reflexive methodology, managers can achieve greater creativity when using analogies in business modelling. This paper puts forward one such technique, multi-analogy modelling, the key steps of which are:

- *Search for business cases that are different from your firm:* Look across industries, across geographies or throughout history for interesting cases.
- *Interpret the case:* How does the business create, deliver and capture value?
- *Reinterpret the case:* Try looking at the case from a different perspective. Do you find any new insights?
- *Get an external perspective:* Ask others to interpret the case. Look for media descriptions or analyses.
- *Revise the issue:* Did you learn something unexpected in the case that makes you want to solve a different problem or chase a different opportunity?
- *Select and apply:* Highlight those insights that are most interesting. How might they be applied to your firm?
- *Check for consistency:* Do the business model elements fit together?

In order for business model design to encourage creativity, techniques should enable managers to confront their assumptions and reframe the task at hand without neglecting their pre-existing expertise.

Keywords:
Business model,
Creativity,
Design,
Interpretation,
Attention,
Tool,
Analogy

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