

Updated July 20, 2021

University of Pennsylvania
The Wharton School
Management Department

BUSINESS MODEL INNOVATION STRATEGY

MGMT 832/MGMT 232

Q2, Fall 2021

Tuesday, 3:30-6:30 PM

Room: ARB 140

Raffi Amit

The Marie and Joseph Melone Professor and Professor of Management

Office: SH-DH 2012

Phone: (215) 898-7731

Email: amit@wharton.upenn.edu

<https://mgmt.wharton.upenn.edu/profile/amit/>

Course Overview

In the past few decades, innovations in computing and information technologies have accelerated, instigating a fundamental shift in the economic and competitive landscapes. The changes that this shift has been fueling are pervasive, comprehensive and disruptive. Often touted as the “digitalization of business,” they go far beyond increasing firm efficiency and profitability through digitizing individual processes or functions within firms. They are profound, holistic, and may shake firms to their core. They encompass every industry in every corner of the world. They present new and exciting business opportunities in industries that were considered all but immune to attacks from newcomers. These developments present enormous opportunities for aspiring entrepreneurs whose innovative business models can disrupt entire industries as Airbnb did in the hospitality industry, and Uber in the industry for personal transportation. As well, managers of incumbent firms need to explore new possibilities for value creation that are anchored in the redesign of their firms’ business models as Charles Schwab, the financial services firm, did when it transformed its business model to the web. Every manager of every well-performing firm needs to take seriously the possibility of eroding margins that result from competitors’ business model innovations. The scale of the COVID-19 health crisis coupled with the social and economic fallout may alter the preferences, habits, and risk attitudes of consumers and therefore prompt companies, large and small, public and private, for-profit and social, to reinvent and reimagine themselves to be able to survive and prosper.

A business model describes the ways in which a firm conducts its business activities, and business model innovation is about “*how to do business in new ways.*” Designing and implementing novel business models have become crucial skills for general managers, entrepreneurs and investors since the business model had become one of the core strategic choices that general managers and entrepreneurs (and those who support and invest in them) need to consider. It answers the question: How should the firm do business? For decades, the key strategic decisions that managers and entrepreneurs were asked to address centered on: (i) corporate strategy issues such as what should be the scope of the firm, and (ii) business strategy issues such as how to compete in product/markets. The advent of the internet did not undermine the importance of these classic choices; they remain as valid and relevant as ever. However, it added an essential strategic choice onto the entrepreneur’s and general manager’s plates, namely the question of

how to do business. This question does not replace, or diminish the importance of, any of the previously mentioned strategic issues. Rather, it complements them and thus expands the range of strategically relevant considerations for entrepreneurs and managers who are keen on pursuing and exploiting new business opportunities in addition to defending and securing their existing ones. In other words, addressing the business model question has become a strategic imperative for entrepreneurial leaders. Technological change—mainly in information and telecommunication technologies, has enabled the development of entirely new business models, whereas in the past technological change mainly spurred the development of new products and processes.

Business Model Innovation Strategy is a half semester MBA/undergraduate elective course which centers on the conceptualization, design, analysis and implementation of novel business models by incumbent and by new venture leaders as well as on the organizational challenges associated with a business model innovation strategy. Students will be introduced to a comprehensive framework for developing and implementing a new business model. The framework will be brought to life through a combination of lectures, in-class exercises, numerous illustrations and case discussions.

Objectives

The main objective of the course is to familiarize you with knowledge, concepts and tools that are needed to diagnose and evaluate existing business models as well as to analyze, design and implement novel business models. The concepts that form the basis for the course are deeply anchored in state-of-the-art research and practice on the subject of business model innovation strategy. The integrative framework that we will learn addresses both the content (e.g., the key components of a business model) as well as the process of business model design. The course material guides you through the strategic analysis, ideation and development stages of the business model design process; it helps you work through that process in a structured manner.

The course is designed principally to address the interests of students who expect to embark on an entrepreneurial career, expect to assume a managerial role within a venture-backed start-up company, or wish to pursue a management consulting or corporate career. The course will build on a range of fields including strategy, marketing, entrepreneurship, organization design, and finance.

Learning Outcomes

- Learn the key concepts that enable you to analyze and design new business models, and apply them to real-world problems
- Identify and evaluate opportunities for creating and capturing value through the design of the business model
- Understand the value drivers of business models, and how they contribute to the firm's value proposition
- Learn and apply techniques for generating and evaluating new business models
- Learn and apply design thinking to develop business model innovations
- Develop your ideas into full-fledged concepts that are ready for implementation
- Assess the challenges associated with business model innovation in start-ups
- Assess the challenges associated with business model design and rejuvenation in large established firms

Requirements and Evaluation

The assigned readings in the course are moderate. This syllabus, the assignments, and the readings have been organized so that students can manage the requirements efficiently. As in all courses, the lectures and discussions in the classroom will be much more meaningful if the readings have been studied in advance. From time to time, mid-course changes in presentations or materials may be made to achieve academic objectives.

The readings that are assigned to each class meeting are selected on the basis of their relevance to the topics addressed in that class meeting. The readings are intended to enhance your understanding of the concepts and issues discussed in class. You are encouraged to read them in advance of class.

Study Group teams: Students are asked to form study group teams of up to 5 students per team. Study groups are expected to meet to discuss the assigned cases and work together on the in-class exercises. Choose your teammates carefully—changes will not be allowed once your study group team has been formed.

Student Grades The final course grade will be computed as follows:

- Classroom participation/in-class assignments 30%
- Case memos 20%
- Term assignment 50%

Individual class attendance and participation: Active class attendance and participation is very important for this course. The quality of your comments counts as much as your participation activity level. All students are expected to participate in class discussions. Students should expect to be cold called. Please display your name tent in each class to facilitate teacher/student interaction.

Because so much of the learning in this course occurs in the classroom, it is important that you attend every class. If you have to miss class, for one reason or another, please notify the instructor and the TA in advance by e-mail.

Case write-ups and other assignments: For some of the assigned cases, before the start of class, the study group team may be asked to submit online into a designated folder, the write-up in which the study questions are addressed. The instructor recognizes the challenges of responding to the study questions of each case given the pace of the course, and this is taken into consideration as part of the grading of these assignments.

The write-up should be double-spaced, font size 11, and as a guideline should be limited to 4 pages in length. The 4-page limit is for text only. You may attach as many figures as you wish BUT your submission must integrate into a single file. The names of the students in the study team must appear on the front page of the memo. Write these as if you were writing a recommendation to the major decision-maker in the case.

Write-ups will not be accepted after the class has met. Credit will only be given to write-ups that are posted online no later than the beginning of the class to which the caselette was assigned. No credit will be given for write-ups that are handed in late or not handed in.

Term assignment: Each study group team is asked to connect with a company of their choice at the beginning of the course. By engaging with Executives in the chosen company, each study group team is expected to diagnose the dimensions of the current business model of the chosen company, draw the activity system diagram of the business model and provide a description of its value drivers. As well, each study group team is expected to conceptualize, design and outline the implementation challenges of a new, innovative, robust and scalable business model for the chosen company using the concepts and processes we will learn in class. Each team should be prepared to present its work to the class.

Team meetings with the Instructor: Study group teams will schedule periodic meetings with the instructor during which we will review and discuss the progress on the term assignment and related issues.

Peer evaluation: Since 70% of your course grade depends on group work, you will be asked, towards the end of the course, to evaluate the contribution of each of your study group teammates, using an online form. The scores will affect individual grades on group assignments. Submitting this form in a timely manner is a requirement of this course.

Lecture notes: PDF files of the PowerPoint slides used in a class session will be posted.

Canvas Site:

- There will be a dedicated Canvas site for our course. Lecture notes, course materials and periodic announcements will be posted on this Canvas site. Students will be able to access copyrighted reading materials through Canvas via the "Study.net Materials" tab located underneath the "Files" tab on Canvas. Please email courseware@wharton.upenn.edu for any issues regarding the reading materials. You may also contact customerservice@study.net outside of normal business hours.
- The Canvas URL is: <https://canvas.upenn.edu/courses/1586386>

Required Readings:

BUSINESS MODEL INNOVATION STRATEGY:

Transformational Concepts and Tools for Entrepreneurial Leaders

By: Raphael Amit and Christoph Zott

John Wiley & Sons Inc. 2021 Hoboken, NJ

Optional Reading:

CONNECTED STRATEGY:

Building Continuous Customer Relationships for Competitive Advantage

By: Nicolaj Siggelkow and Christian Terwiesch (Harvard Business Review Press 2019)

Learning Environment and Excused Absence Policy:

Consistent with the **Wharton Learning Agreement**, which depicts the Students and Instructor standards, please note that:

- Class starts and ends exactly on time. Students and faculty are expected to be prompt.
- Students sit according to a seating chart.
- Students are to remain in attendance for the duration of the class, except in an emergency.
- Students display their Wharton-issued name tents at every session.
- All mobile phones are turned off.

As well, we will adhere to the **Wharton Excused Absence Policy** (<https://mba-inside.wharton.upenn.edu/academic-performance/excused-absence-policy/>).

Business Model Innovation Strategy			
The Course at a Glance¹:			
Session (week) # & Date	Subject	Specific topics	Assignment
1. Tuesday, October 26, 2021	Introduction to Business Model Innovation Strategy	<ul style="list-style-type: none"> • Why Do Business Models Matter? • What is a Business Model? What is it Not? • Approaches Towards Defining Business Models • The Business Model as an Activity System • The “What, How, Who & Why” Framework <ul style="list-style-type: none"> - The What Dimension - The How Dimension - The Who Dimension - The Why Dimension • Implications of the Framework • Value Creation vs. Value Appropriation in Business Models 	<ul style="list-style-type: none"> • Read Chapters 1 & 2 <p>In-Class Group Exercise #1 (an analysis of a BM of a company that includes a description of each of the 4 dimensions)</p> <p>Case: HBS Case Studies #618051 and #619079 (2019) <i>JD: Envisioning the Future of Retail (A and B) by Feng Zhu and Shirley Sun</i></p> <p>Case Discussion Questions</p> <ol style="list-style-type: none"> 1. How is JD business model different from Alibaba’s business model? Do these differences contribute to the competitive advantage of JD? If so, are they sustainable in your view? 2. What are the characteristics of boundaryless retail? How would the future of retail affect the growth opportunities for JD? 3. What strategies should JD employ to realize its vision? In particular, JD is considering to leverage its capabilities

¹ Each session is 3 hours long. In addition to the formal sessions there will be multiple individual meetings of student teams with the Instructor.

			<p>including sourcing, quality control, logistics, big data and AI to empower offline convenience stores, which are not owned by JD, to enable its expansion to the offline retail space. Do you think that this is the right move?</p>
<p>2. Tuesday, November 2, 2021</p>	<p>Business Model Innovation</p>	<p>Adopting a Business Model Mindset and why is it needed?</p> <p>Leadership actions to foster a Business Model Mindset</p> <p>What is business model innovation?</p> <p>A framework for business model innovation</p> <p>Measuring business model innovation</p> <p>The Pros and Cons of business model innovation</p>	<ul style="list-style-type: none"> • Read Chapters 3 & 4 <p>In-class Group Exercise #2 (a 2-part exercise that highlights the distinction between BMI and product innovation)</p> <p>Case: HBS Case Study #W19506 (Ivey, 2019) <i>NIO: Developing a Business Model in China</i></p> <p>Case Discussion Questions</p> <ol style="list-style-type: none"> 1. Describe the industry environment when NIO was founded? What factors contributed to the establishment and development of NIO? 2. What were the innovations in NIO's business model? 3. Why did NIO choose a "Charging and replacing" system as part of its business model? 4. Faced with a fiercely competitive market, what adjustments would you recommend NIO's business model?

<p>3. Tuesday, November 9, 2021</p>	<p>Strategic Design Process of Business Model Innovation</p>	<p>Why is a design perspective relevant to business model development?</p> <p>What is Design in the context of Business models?</p> <p>Business Model Strategic Design Drivers</p> <ul style="list-style-type: none"> - Deployable Resources (D) - External Environment (E) - Stakeholders' Activities (S) - Incumbents' Templates (I) - Goals (G) - Perceived Needs (N) <p>Robust Business Model Design</p> <p>The Business Model Design Process</p> <ul style="list-style-type: none"> - BMIdeate - BMIterate - BMImplement <p>Building a business model innovation capability</p>	<ul style="list-style-type: none"> • Read Chapters 5 & 6 <p>In-Class Exercise #3 two part:</p> <p>Part I: Assign a BM of a company that has not been modified in a very long time. By analyzing the DESIGN drivers suggest ways to innovate the BM to reflect technological and social changes as well as changes in the competitive landscape.</p> <p>Part II: Storyboard the new business model that you developed in Part I using four to six frames, and use the storyboard to explain to the class how the new business model works.</p> <p>Case:</p> <p>HBS Case Study #812077 (2011, rev. 2012) <i>Rent the Runway</i></p> <ol style="list-style-type: none"> 1. What is the business opportunity that the founders have identified? 2. Are the backgrounds and experiences of the co-founder team suitable for the business opportunity? 3. Create a timeline of actions taken by Rent the Runway (RTR). Do you agree with their decisions to capture the business opportunity? Which actions were important in validating their assumptions and refining the concepts? 4. As the case ends in January 2010, the cofounders are considering whether to: <ol style="list-style-type: none"> (1) stick with their
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			<p>original plan to pursue operational improvements in 2010 before raising more capital in 2011; or (2) accelerate fundraising in order to expand inventory and product range, enabling RTR to serve a broader set of customer segments and usage occasions. What would you have done about this decision?</p>
<p>4. Tuesday, November 16, 2021</p>	<p>Business Model Design Tools and Evaluation</p>	<p>General Design Tools</p> <ul style="list-style-type: none"> - DDP - Effectuations - Lean Startup <p>Tools for articulating and understanding business models</p> <p>Tools for framing the business model design effort</p> <p>Tools for designing and implementing business model innovations</p> <p>Tools for evaluating business models</p> <p>Value Proposition of Business models</p> <p>The NICE value drivers</p> <p>From Value Propositions to value appropriation</p>	<ul style="list-style-type: none"> • Read Chapters 7, 8 & 9 <p>In-Class Exercise #4a:</p> <p>Handout a sheet containing a one-page description of a new business model - renting e-bikes in Rome. Study groups are assigned the following questions:</p> <ol style="list-style-type: none"> 1. What are the major underlying assumptions (hypotheses) behind the business model? 2. At which milestone(s) could they be tested? 3. Design an early low-cost experiment (i.e., one that costs no more than \$1,000) in order to test the most critical assumptions? <p>In-Class Exercise #4b: Analyzing the Value drivers of a business model that is handed out to the study groups</p> <p>In-Class Exercise #4c: Illustrations of tools such as the activity Map</p>

<p>5. Tuesday, November 23, 2021</p>	<p>Managing the Organizational Challenges of Business Model Implementation in Startups and in Established Firms</p> <p>Business Model Innovation Strategy in the Digital Age</p>	<p>What are the business model implementation challenges and barriers in startups and in established firms?</p> <p>Creating internal fit – overcoming resistance to change and organizational inertia in established firms</p> <p>Addressing leadership and knowledge gaps</p> <p>Managing business model implementation risks in startups</p> <p>The sharks dilemma startups face</p> <p>The roles of governance and leadership in business model implementation</p> <p>Revenue models</p> <p>The strategic implications of business model innovation in the digital age</p> <p>How to develop a business model innovation strategy</p>	<ul style="list-style-type: none"> Read Chapters 10, 11 & 12 <p>In class exercise # 5:</p> <p>Evaluating the mindset and attitude of Business unit stakeholders of an established company towards a radical innovation of its business model</p> <p>Case:</p> <p>HBS case study #420-080 (2020) CredEx Fintech: Business Model Transformation in the Digital Era</p> <p>Case Discussion Questions:</p> <ol style="list-style-type: none"> Describe the Business opportunity: What has been the business opportunity of CredEx? What is the innovation of this company? Explain the transition to an Offline-to-Online (O2O) business model. Why did CredEx move to an O2O business model? How does its O2O business model compare to its initial offline business model? What were the major challenges in the transformation process and how did the CredEx management team overcome these challenges? What are core capabilities needed to implement this O2O business model? Why might some companies be transitioning from offline-to-online, whereas others transition from online-to-offline? What factors (antecedents) drove the transition of the O2O business model to an innovative handheld, mobile phone-based, and online business model? What are the novel aspects of the new online business model and why do they matter?
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			4. Envision the future of CredEx. How would you further innovate CredEx's business model to adapt to the changing market, technological and regulatory-institutional environment?
6. Tuesday, November 30, 2021	Project Presentations	Student teams present their term projects to the class	