Seizing the White Space

Kodak invents digital photography in 1975 but doesn’t bring a digital camera successfully to market for another 30 years. Xerox famously devises the mouse, the laser printer, and the graphical user interface but fails to commercialize any of them. Digital Equipment Corporation spends $2 billion developing a personal computer but never sells a single one.

What makes opportunities like these so difficult to grasp is that, so often, they require companies to move far beyond their core into uncharted territory – into their white space. That’s a scary place, one where many companies’ experience is (as one CEO put it) “unblemished by success.” But if the danger is all too obvious, its causes are not. The white space is hard to navigate not because it’s uncharted but because so many companies try to go there with the wrong map, the one they’re currently using – their existing business model.

And who can blame them? Every successful company is already fulfilling a real customer job with an effective business model. The problem is that few organizations can explicitly articulate what that model is. Day to day, they go along guided by implicit rules of thumb, metrics, incentives, and the odd success story. But without an explicit understanding of their business model – the premise behind its development, the way its various parts work together, its strengths and weaknesses when in pursuit of new growth – they don’t know whether they can use it to deliver on a new customer opportunity or if that opportunity is a move into their white space requiring a new model.

Mark Johnson is chairman of Innosight, a strategic innovation consulting and investing company with offices in Massachusetts, Singapore, and India, which he co-founded with Harvard Business School professor Clayton M. Christensen.

He has consulted to Global 1000 and start-up companies in a wide range of industries – including healthcare, aerospace/defence, enterprise IT, energy, automotive, and consumer packaged goods – and has advised Singapore’s government on innovation and entrepreneurship.

Mark’s most recent work has focused on helping companies envision and create new growth, manage transformation, and achieve renewal through business model innovation. This work is the subject of the McKinsey award–winning Harvard Business Review article, “Reinventing Your Business Model,” co-authored by Clayton Christensen and Henning Kagermann. Mark also co-authored The Innovator’s Guide to Growth (Harvard Business Press, 2008), recently co-authored “How to Jump-Start the Clean-Tech Economy” (Harvard Business Review, 2009), and has published articles in the Sloan Management Review, Forbes.com, BusinessWeek Online, Advertising Age, and National Defense.

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AC: Can you tell us about your background?

Mark W. Johnson:

Interestingly, like quite a few business thinkers – Michael Porter, Michael Hammer, and Peter Senge, for instance – I come from an engineering background, having degrees in aerospace engineering (from the US Naval Academy at Annapolis) and in civil engineering and engineering mechanics (from Columbia University) and having served as a nuclear power-trained surface warfare officer in the Navy. I also hold an MBA from Harvard Business School. I’m Chairman of Innosight, a strategic innovation consulting and investing company with offices in Massachusetts, Singapore, and India, which I co-founded with HBS professor Clayton M. Christensen ten years ago this month.

With Professor Christensen and others, I’ve focused my research efforts on helping companies envision and create new growth, manage transformation, and achieve renewal through business model innovation. This work was the subject of the McKinsey-award-winning Harvard Business Review article “Reinventing Your Business Model” in December 2008, co-authored with Professor Christensen and Henning Kagermann – work that I have greatly extended in my new book Seizing the White Space: Business Model Innovation for Growth and Renewal.


AC: How do you define “white space?”

Mark W. Johnson:

That’s a great question. There may be as many definitions of white space circulating as there are business thinkers. Some people define it as a place where there’s no competition, for instance. Others define it as new markets or gaps in existing markets.

But I have a very specific meaning in mind that is particularly useful for strategy formulation. By white space, I mean market opportunities that your company wishes to pursue that can only be addressed by using a different business model than the one it’s currently using. These might be opportunities to bring your own innovations to market – Apple’s iPod/iTunes combination is a great example. Alternatively, they might be imperatives to address a competitive threat – such as the threat the Internet poses for the newspapers’ advertising-supported print-publishing business.

When formulating strategy, this approach to white space is important for two reasons. First, many companies have failed in their efforts to enter their white space because they haven’t understood that the new opportunity could not be captured with their existing business model – and just as important, that it perhaps could have been captured if they had formulated a different model. As a result, they’ve retreated to their core operations and adjacencies, and unnecessarily limited themselves to only those strategic moves that they could execute with their current model.

Second, one company’s white space may be another company’s core competence, making the competitive threat all the greater (as the newspapers are finding out as they go head-to-head on the Internet with born-on-the-Web competitors like the Huffington Post). Alternatively, some competitor’s white space may be a perfect fit with your company’s current business model. That was so for Procter & Gamble when it developed the Swiffer – which was a technological innovation that turned the common household mop from a commodity into a higher profit consumable product (like razors and razor blades). It was a game-changer for mop manufacturers, but it fit squarely into P&G’s existing homecare...
business model, which is optimized to manufacture and distribute consumable products in large scale.

AC: You describe the book as a “playbook for conquering the unknown.” What do you mean by this?

Mark W. Johnson:

To seize these white space opportunities – that is, opportunities that by definition require new business models – companies need a dependable process by which to develop the new models.

In my research on companies that have done this successfully, I did not find that they were following any particularly explicit, repeatable process. That’s what the engineer in me set out to develop, and that’s what I present in the book. It’s a three-step process that begins with understanding where opportunities really lay at their most basic level – with uncovering a real job that real customers need to do. The second step is developing a blueprint for the new business model that can fulfill that job profitably for the company at a price the customer will willingly pay. And the third step is the process of implementing that new business model, not all at once, as you would execute your existing model, but as a carefully thought-out series of low-risk experiments in which you test hypotheses about the model and apply lessons learned. In this way, you considerably lower the risk of venturing into your white space. And the lower you make your risk of venturing into the unknown, the more you expand your strategic growth opportunities beyond your core.

AC: What were some of the challenges you faced in writing the book? How did you overcome them?

Mark W. Johnson:

I’ve been thinking about business models and business model innovation for a long, long time – ever since Professor Christensen and I founded Innosight to help companies meet the challenge of disruptive innovation.

Business thinkers have looked at a great many successful companies and drawn lots of lessons from them – so many, in fact, that some of them apparently conflict. Good research shows, for instance, that companies that have had the greatest success are those that stuck to their core. But other, equally robust research shows that the great growth opportunities are those involving completely new products and services that create new markets. How to reconcile this research?

The biggest challenge is to move beyond a description of the various things successful companies do to some kind of theory about when those moves will work and when they won’t. There hasn’t been a lot of thinking directed toward that goal. That’s what I’ve tried to do.

The more I thought, and the more business leaders I consulted, the more I believed the key was to come up with a definition of business model that could answer the question ‘Why is it so hard for a company to move beyond its core?’ – that is, “What about the business model defines a company’s current success and inhibits it from being successful in a different way?”

AC: Your book claims to provide the “building blocks for creating business model innovation.” Can you elaborate on this?

Mark W. Johnson:

This, basically, is the three-step process I’ve described above. The result of that process is the business model itself – the key to your company’s current success. Every successful company is operating according to a successful business model, whether it explicitly knows what that business model consists of or not (and many don’t).
In my framework, that model has four parts: a customer value proposition (or “CVP”), which describes how your company creates value for a given set of customers at a given price. Second, the profit formula specifies how your company will capture value for itself and your shareholders in the form of profit. The profit formula distills the often complex financial calculations into the four variables most critical to thinking strategically about profit generation: revenue model, cost structure, target unit margin, and resource velocity. The third and fourth elements of the model, key resources and key processes, are the means by which your company delivers the offering profitably. They’re not the entire value chain – only the critical assets, skills, activities, routines, and ways of working that enable your company to fulfill the CVP and profit formula in a repeatable, scalable fashion. When properly integrated together and congruent with the CVP and profit formula, they are the essence of your competitive advantage.

**AC:** You note that “it’s nearly impossible for a business unit to adopt and operate more than one business model at a time and do them all well.” Why is this so?

**Mark W. Johnson:**

Well, the short answer is that a business unit optimized to do one thing can’t be optimized to do something else at the same time. But more specifically, if you look at the elements of the profit formula, you can see that some of them are really difficult to adjust – once a company has hit upon a winning way to sell a certain number of widgets at a specific price using a certain process that involves a particular overhead expense and operates at a certain velocity to produce a profit at a specific margin, it’s hard to change any part of that without threatening the whole.

So, say your company is set up to produce a line of cars at a certain price; in order to produce a far less expensive car – as Tata Motors has done with its $2,000 Nano – you probably have to change all parts of the profit formula. You can’t just send the Nano down your production line and somehow spend less to make it. You have to use a totally different process that involves radically less overhead by, for instance, designing a car with far fewer parts, and perhaps setting up a new kind of production system that’s more modular than your current system (more in the way Dell constructs a PC, say). It’s incredibly difficult to ask your organization to do that while at the same time asking them to continue building your other cars (which, after all, are paying the company’s bills) in the original way. In my experience, to implement a new business model, you really need to do it in a separate unit.

**AC:** You talk quite a lot about “value propositions.” Can you tell us what you mean by this?

**Mark W. Johnson:**

When most people describe the companies they work for, they talk about them in terms of the products and services they sell – IKEA sells furniture, for instance. But what successful companies really do is something more basic: they fulfill some important need, or “job,” a customer has by providing a particular offering to do that job at a certain price. The job IKEA fulfills could be described as “Don’t lock me into a furniture purchase I have to live with for years and years. Let me redecorate my apartment or first house as often as I need to, while I’m young, relatively poor, and my tastes are likely to change.” To fulfill that job, IKEA has offered a customer value proposition that can be described as “We offer the hip furniture you want now at a price so affordable you don’t have to worry if you change your mind later: you can think of the furniture as you do your wardrobe, as something you can change when the urge arises.”

The starting place of business model innovation (in fact the starting place of every business) is a powerful customer value proposition – the answer to the question: “Why should anyone want to buy anything from you?” The more important the job, the better the match between the job and the offering, and, generally, the lower the offering’s price, the more powerful the customer value proposition – and by extension the greater the growth potential for the company.
AC: How important is the issue of leadership when it comes to seizing white space?

Mark W. Johnson:

I hesitate to say leadership is critical, since all business thinkers say that about pretty much all subjects. But since the decision to develop a new business model to take advantage of a new business opportunity or address a looming threat is a fundamentally strategic decision, it can only be made at the highest level. Once you understand that such decisions require companies to institute new profit formulas that may involve different margins, different processes, and different capital investments, it becomes clear that any move to do that without executive backing will be doomed.

AC: The book takes a look at achieving “fantastic” growth. Do your ideas still hold weight in today’s deeply challenging business environment where growth appears to be difficult to achieve?

Mark W. Johnson:

Business model innovation is even more important in challenging economic climates, when growth prospects for existing businesses are, as you say, becoming more and more difficult to achieve. It’s hard to imagine consumer spending returning to pre-recession levels any time soon – especially demand that was fuelled by easy credit and overly optimistic views of home equity. That means companies are going to have a difficult time growing by encouraging people to spend more on the same things they’re buying now (or bought before the recession), or by finding new customers who find their current customer value propositions attractive.

So I think it more than likely that many, many companies will need to look for new customer value propositions that fulfill the new jobs that people will find they need done in the new economy. Or companies will need to develop new CVPs for entirely new customers in new markets to make up for lost demand. Both of those situations will probably require new business models since I think those offerings will involve slimmer margins than many companies’ current business models require. What’s more, already multinationals from emerging markets (like Haier, the Chinese appliance manufacturer) are finding Western markets ripe for their lower-cost, lower-margin, higher-volume offerings. So it may not even been a matter of new growth: business model innovation may become imperative to many companies in Britain, Europe, and the US just to remain competitive.

AC: Do your ideas favour a particular size of organization, or are they applicable across the board, so to speak?

Mark W. Johnson:

The short answer is no, my ideas don’t favour any particular size of organization, since every successful company is successful because it’s operating according to an effective business model, no matter what its size. That said, business model innovation is most difficult for incumbent companies, which need to carefully consider how any new opportunities relate to their current model. That’s a problem start-ups don’t have, which may be why most business model innovation has come from small, new ventures. There’s no reason, though, that large incumbents couldn’t use their superior resources as an advantage in developing new business models if they are careful to keep the effort separate from the core.

AC: The book includes many fascinating case study examples. Which stands out the most for you, and why?

Mark W. Johnson:

What most fascinated me was the range of innovation that’s possible in devising new business models: The European hand tool manufacturer Hilti, for example, escapes commoditization by turning its tool-manufacturing business into a service; IKEA turns
furniture from a once-every-ten-years durable good into a redecorate-every-year fashion play. Apple, a computer maker, finds a way to get consumers to pay for something they had been getting for free in an entirely different market—music. Dow Corning devises a low-end product that not only doesn’t cannibalize its high-end silicon business but actually expands industry demand overall. The companies closest to my heart are the ones like Tata that are opening up entirely new markets to people who had previously been entirely shut out, raising living standards by devising profitable ways to deliver dramatically lower-cost offerings.

But probably the all-time business innovation champion is online pioneer Amazon, whose original innovation had more to do with cash flow than with the enabling technology of the Internet. Amazon’s original innovation was not so much the cost advantage it got from not having physical book stores as it was the cash flow advantage it got from having its customers pay for the books before they received them. And then Amazon has gone on to innovate its business model again and again—expanding from book sales to general sales and then to become a broker of others’ goods, to a cloud-computing vendor of IT services, and on again, with the Kindle e-reader, to become a hardware manufacturer, a-la Apple. Amazon shows that business model innovation can be a repeatable source of competitive advantage.

**AC:** Finally, do you have any closing comments you wish to make?

**Mark W. Johnson:**

If there’s one message I hope people will take away from my book, it is that there is far more opportunity out there than many executives realize. When people devote as much energy and imagination to devising innovative ways to turn a profit as they have to devising innovative technologies, they open up possibilities that were previously thought unimaginable. When Henry Ford, for instance, dramatically increased workers’ pay so that they could afford to buy the cars they were building, his peers thought he was insane. But he understood that if he could make a car that the average American could afford, he would open up dramatic new growth opportunities for his company. And he understood that there were far more variables in that equation than anyone had previously thought. He reconsidered every part of the business—from designing the car with interchangeable parts, to conceiving of the radically more efficient assembly-line process, to dramatically limiting the number of colours (any one, so long as it was black!). Nothing was fixed in his mind—not even the income potential of his customer base. And as a result, not only did he dramatically increase the growth potential of the Ford Motor Company, but he dramatically improved Americans’ living standards.

As technological innovation and the march of scientific knowledge continue to open up new ways to turn a profit, the potential of business model innovation to improve the living standards all over the world by making vital goods and services available to people who are currently shut out of the world economy is, if anything, greater today than it was in Henry Ford’s day. What we need are organizations, executives, and entrepreneurs with similarly expansive imaginations.

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