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Winter 2019: Jan-Mar
M/W 1:00 – 2:50 (Mendoza 159)
Class Website: sakai.nd.edu

MGTO 70560: Business Model Innovation

This course is designed to study how organizations can achieve sustainable competitive advantages by creating new market spaces through business model innovation. The goal is to help students to think beyond how organizations can simply compete in widely contested market sectors to instead innovate in novel ways that allow a firm to generate superior returns in wide open spaces.

The class will focus first on presenting theory on the nature of business models and the theoretical underpinning of business model innovation. Extensive evidence will be presented to illustrate the historical role that business model innovation has played in the development of modern industries through periods of punctuated equilibrium. The clear differentiation between product-based innovation and business-model-focused innovations will be a starting point for understanding how firms have historically achieved sustainable competitive advantages. From this theoretical foundation, we will then move on to consider tools and approaches to market-making and identifying attractive market spaces.

A series of cases and experiential exercises will be used to help students develop generative capabilities around business model innovation. The goal of these exercises will be to provide students with consistent opportunities to develop muscle memory for approaching industries with a contrarian view through which value can be reconsidered to achieve better outcomes for customers, employees, and stakeholders. Further, specific experiences will also focus on developing critical analysis skills as well, to help develop skills for sorting through potential innovations and evaluating a competing organization's business model.

The class will be highly interactive, experiential, and fast-paced.

CUSTOM BOOK OF CASES AND READINGS

Required: Custom ebook from McGraw Hill (download details below)

1. Go to <http://create.mheducation.com/shop/>
2. Search for and select book. ISBN: 9781307387612.
3. Add the book to your cart and checkout. The price for the book should be \$27.74.

LEARNING GOALS

By the end of this course, students should be able to:

1. Describe key theories of business model innovation.
2. Demonstrate an understanding of how to identify business model innovation opportunities.
3. Question prevailing business models effectively and critically.
4. Formulate new business model innovations that drive significant competitive advantage.
5. Evaluate the strategic value of new proposed business model innovations.

ADVANCED STRATEGY: THINKING BEYOND INDUSTRY BOUNDARIES

An essential part of success as a strategic leader is a strong understanding of how theories and frameworks can assist in the development and execution of a firm's strategy. This class builds on the core strategy class by introducing a variety of new frameworks that will add to your "strategy toolkit." In the core strategy class the primary focus was on how to create a sustainable competitive advantage while playing within the boundaries of industries that were well defined and taken-for-granted. In this class we will re-imagine industry boundaries to cut closer to how customers experience and receive value from the products and services provided by an organization.

The goal in this boundary-stretching process will be to innovate in new ways – how actors in the market are arranged, how customers pay for or use a product, how an industry's products and services fit together with other complimentary / bundled products / services, and many other points of re-imagination. In each case, the focus will not be on product innovation (though some product innovation may be required), but instead will focus on re-thinking and re-designing how customers interact with organizations for mutual benefit.

The core materials for this course will be lecture slides (presented in class and posted to the course website) and readings (provided in the course-pack and through in-class handouts). Wherever possible I will incorporate video clips from experts in the market to help illustrate and clarify key ideas. From these foundations, we will build up a daily and lively learning environment focused on joint discovery, with a premium placed on new ideas and constructive criticism. It is often through the collision of ideas that breakthroughs occur, so I will focus on creating a classroom where ideas collide frequently.

In order to gain the full benefit of such an approach, it is necessary that everyone come to each class session well prepared. This does not mean that you are expected to have a full understanding of all of the aspects of an assigned case or to have complete knowledge of all of the frameworks in an assigned reading. Most cases and readings take some time to sort out and many of the frameworks require some effort to understand. However, it does mean that you should have thoroughly read and intelligently thought about the issues raised by each case and each reading. You should also attempt to develop a well thought out position on these issues that can be clearly articulated during the class discussion.

Throughout the class sessions, I will act as moderator, questioner, and lecturer to help you gain a better understanding of the strategic decision making process. By actively participating in class discussions, you will sharpen your own insights and those of your classmates.

TENTATIVE SCHEDULE

The following schedule is subject to change as needed throughout the term. Students are expected to read all assigned materials prior to class and be prepared to participate in directed discussions.

Stage 1: Theoretical Basis of Business Model Innovation

Jan 14

Class 1: What is Business Model Innovation?

- Read (Coursepack): "Why Business Models Matter" (HBR: Magretta)
- Read (Coursepack): "Creating Value Through Business Model Innovation" (MIT Sloan Bus Rev: Amit & Zott)
- Reference Material (Sakai): Common Revenue Models: Reference Guide
- Video Concepts: Business Model Canvas
- Video Concepts: 10 Types of Innovation
- Review: First day assignment (best and worst business models)

Jan 16

Class 2: Theoretical Underpinnings of Business Model Innovation

- Read (Coursepack): Blue Ocean Strategy (HBR: Kim & Mauborgne)
- Read (Coursepack): More, Bigger, Faster (Across the Board: Bhidé)

- Read (Coursepack): A Maestro Without Borders (Harvard Case: Kim, Mauborgne, & Ji)
- Video Concepts: Industry Evolution: A Historical Analysis
- Video Case: A Maestro Without Borders
- Due: Strategy Journal

Stage 2: How to Identify Business Model Innovation Opportunities

- Jan. 21** Class 3: **Five Cognitive Strategies to Aid Market-Making**
- Read (Coursepack): “How to Identify New Business Models” (MIT Sloan Mgmt Rev: Sinfield, Calder, McConnell, & Colson)
 - Read (Sakai): “Who Says Big Ideas Are Rare?” (New Yorker: Malcolm Gladwell)
 - Video Concepts: Where Do Good Ideas Come From?
 - Video Concepts: Everything is a Remix
 - Video Case: Asian Grocery Markets
 - Due: Strategy Journal
- Jan. 23** Class 4: **Five Data Strategies for Identifying Attractive Market Spaces**
- Video Case: Re-Examining Business Models in K12 Education
 - Video Case: Deeper Insights with Qualitative Data: IDEO Product Development
 - Due: Group Industry/Sector Final; Topic Narrowed
 - Due: Strategy Journal

Stage 3: Market Space Discovery - Opportunities Brought to Life

- Jan. 28** Class 5: **Transform an Incumbent Business - Presentation Day 1**
- Due: Presenting teams should bring a copy of their analysis for all members of class, and prepare their presentation of the case for the class
 - Due: No journal; evaluate peers in class
- Jan. 30** Class 6: **Transform an Incumbent Business - Presentation Day 2**
- Due: Presenting teams should bring a copy of their analysis for all members of class, and prepare their presentation of the case for the class
 - Due: No journal; evaluate peers in class

Stage 4: Creating Market Spaces: Building a Case

- Feb. 4** Class 7: **Overcoming Internal Resistance to Business Model Innovation**
- Read (Coursepack): The Hard Truth about Business Model Innovation (MIT Sloan Mgmt Rev: Christenson, Bartman, & van Bever)
 - Due: Either quantitative or qualitative analysis (individual)
 - Due: Strategy Journal
- Feb. 6** Class 8: **Overcoming External Resistance and the Defense of Audacious Ideas**
- Read (Sakai): “38 Ways to Win an Argument” (what you have to deal with)
 - Due: Strategy Journal

Stage 5: Theoretical Obstacles to Business Model Innovation in Organizations

- Feb. 11** Class 9: **Meet with your (peer) Advisory Board**

- Due: (one per team) One-page summary of market space analysis & proposal plan

Feb. 13 Class 10: **Theoretical Obstacles to Business Model Innovation in Organizations**

- Read (Coursepack): “Before You Make That Big Decision” (Harvard Bus Rev: Kahneman, Lovallo, & Sibony)
- Due: Strategy Journal

Stage 6: Creating Market Spaces: Pitching a Proposal

Feb. 18 Class 11: **Group presentations**

Feb. 20 Class 12: **Group presentations**

Feb 25 Class 13: **Final Exam Review**

- Due: Strategy Journal

Feb. 28 **Final Exam** (room **MCOB 158** from 1:00 – 2:50)

INDIVIDUAL ASSIGNMENTS:

FINAL EXAM (300 pts)

The final exam will cover *all* readings, lectures, cases, exercises, and class discussions from the course. The primary purpose of the exams is not to test your ability to apply knowledge (that is evaluated with participation / project / papers), instead my exams primarily focus on your dedication to and knowledge of the readings and presented slides, including theories and core concepts.

Except in very specific cases, missing an exam will result in a zero. Contact me immediately in the case of a *documented* medical or family emergency. If you are hospitalized, try to request a relative or friend to contact me. For a religious holiday, jury duty, etc., see me as early as possible to make arrangements.

PARTICIPATION GRADE (250 pts)

Your contribution is very important to the learning process in this course. Each student’s contribution will be evaluated on the quality of his or her preparation, professionalism, and participation. In general, quality contributions possess one or more of the following properties:

- Evidence of thoughtful analysis and ingenuity
- Evidence of careful preparation and outside research
- Skill and tact in presenting, defending, and questioning ideas
- Ability to follow up and build on a line of thought under discussion
- Ability to integrate theory and practice
- Ability to take surprising or counter-intuitive positions and defend them (*be controversial*)

I will keep track of your contributions to class discussion on a regular basis. If your contributions to class are consistent (daily), logical, progressive, interesting, and demonstrate thoughtful analysis or helpful examples then you will be graded highly (80% and up). To score highly you need to contribute to discussions in most classes and take surprising or counter-intuitive positions and defend them. Low scores will be given to students that do not contribute to discussions at all, and it is possible to get zero (0) points in this category with zero participation. The business world does not adjust to people who tend to be shy, and this course is attempting to prepare you for the business world. You need to speak up and get your

opinion heard.

Your grade in this portion of the course is a function of your preparation, professionalism, attendance, participation, and contribution. In addition, your contribution to the team may be evaluated in part by other team members. Students that fail to attend, display unprofessional behaviors, come unprepared, or fail to participate in team activities may have their contribution grades reduced or in extreme case be expelled from the team. In the event a student is expelled from the team, the student will then be responsible for completing all team assignments independently. If I don't hear about team problems, I will assume teams are working together effectively.

A note about professionalism. This component of the participation grade involves my subjective evaluation of the extent to which each student contributes positively to the class experience. The following are examples of the types of things I will consider when assigning this grade. Students are expected to attend each class session, and to be prepared by reading and thinking about the assigned readings before class. Does a particular student contribute positively to our exploration of the materials, participating neither too little nor too much? Does a student's comment move our conversation forward and help the class explore a topic more deeply? Students should treat each other and the instructor in a respectful fashion. Act in a manner that would be consistent with typical professional standards in a respected business environment. Please arrive before class begins (tardiness distracts the class as the students watch you come in and search for a seat) and don't get up and walk out of class unless it is an emergency. Please limit the use of cell phones, tablets, and laptops to emergencies and class-related purposes.

STRATEGY JOURNAL (50 pts)

During this course you will have pre-assigned questions for most classes. Together, your answers to these questions will be a type of journal of your thoughts on various issues through the term. These questions will be turned in daily, and graded as a whole at the end of the course.

The questions for each class will be posted on Concourse, and should be answered independently following the provided instructions. These questions will often require different students to take opposite sides on an issue, even if they do not personally agree with a particular position, and will be used as the basis for in-class discussion. In other cases they will take the form of questions to be answered directly.

Your answers to these questions should reflect two things. First, your answers should demonstrate knowledge of the material from the assigned readings integrated into your responses. This should include the use of terminology from course readings and occasional use of examples. Second, answers should take a clear position on the issue to articulate an interesting and potentially counter-intuitive point of view with relevant support.

Grading on these journals is generally generous, in so far as a good faith effort is put forward. Weaker contributions may receive lower evaluations, and exceptionally well crafted responses can receive perfect scores.

TEAM ASSIGNMENTS:

TRANSFORM AN INCUMBENT ASSIGNMENT & PRESENTATION

Each team will be randomly assigned a set of business model innovation tactics / techniques, which have the potential to transform, create, or re-shape existing business models and value propositions. Each team should pick one of these (or a combination of these) to focus on to be applied to a large incumbent company in any industry to transform the company into a better position for growth in the future. This will include preparing a short executive summary and presentation about the company you would apply your transformation to, the justification for this change, and an outline of the broad shape of the new value proposition(s) and growth that could emerge from this development.

There will be two deliverables. The first is a two-page (one piece of paper, printed two-sided, single-spaced, 11-point font, at least 0.8 inch margins) executive summary about your plan. The group should print enough copies of this document to distribute to the entire class. The second deliverable is an in-class presentation of your ideas, where each group will spend 10 minutes teaching the class about your proposed transformation and why you think this has potential to positively transform the future of the incumbent firm you selected. You will also take a few minutes of questions. The grade for this assignment will incorporate both the quality of the presented material (written and oral) but also the ability of the team to effectively convey what is novel and exciting about your ideas to your peers. Be as creative, inspired, realistic, and value-focused as possible within the constraints of conveying the necessary information.

The format of the written document should include the following sections:

1. The Incumbent Company

- a. In this section give a brief but clear and concise description of who the incumbent company is, what their current value proposition(s) look like, and how they are doing right now. Hit the key points.

2. Potential Threats on the Horizon

- a. Describe any potential threats that this business is facing or will be facing in the near future, ranging from emergent business models in their industry, changing demand characteristics, potential disruptions from outside technology / regulation / trends, etc.
- b. How well positioned is the company to address these potential threats?

3. Proposed Business Model Innovation

- a. Describe the tactic(s) that you will be using to transform the company.
- b. Describe your new solution in some detail – how would this work?
- c. Describe how your new approach / tactics might be implemented in the company:
 - i. Who/what would be displaced / how would existing employees react to these changes
 - ii. How would these changes influence / leverage / displace the company's existing asset investments
 - iii. How would this impact the relationship with current customers / suppliers / stakeholders

4. Risks and Rewards

- a. Describe the potential risks this would introduce to the company.
 - i. What is the worst that could happen as a result of this change? Should that change your answer?
- b. If successful, how successful could this be? Is it worth it?

In preparing your ideas, you are welcome to extend the company's products / services in some new directions, as long as they are within the realm of technical feasibility (would not require a Nobel prize to achieve). Further, think about a variety of ways your business model innovation could be implemented – stripped down, in a much cheaper form, combined with an adjacent industry's technology for complementarities, juiced up with some new capabilities, used for supply-chain / production (not just consumer products), how it could be sold in different ways (subscription, rental, value-based pricing, bundled, bulk, channel sales, etc.), and how it might change the way people live or work, or how products are made or distributed. Focus on realistic implementations, but do not be constrained by models that have already been tried. Avoid suggesting any new ideas that are already being implemented. If you do offer such an idea, be sure to suggest substantive differences relative to how it is being offered currently, sufficiently different that your idea could exist legally as a separate entity.

Handouts over two pages will be penalized, so be thoughtful, brief, clear, and concise with your curation of what material to present. Go for the most promising, most engaging, and clearest articulation of these ideas you can, recognizing that you will have to sacrifice depth in favor of clarity and succinct presentation. Do not include an introduction, conclusion, or title page – just hit the sections detailed above. If we cannot

understand the idea from your brief description, re-write it to improve clarity. Again, grading will be assigned based both on idea quality, but also on the effective and clear presentation of the ideas in written and oral formats.

FINAL PROJECT PROPOSAL (300 pts)

Students will be randomly assigned into teams for a business model innovation project running through the entire class. Each team will be responsible for identifying an attractive market space for business model innovation. Each team will then perform a rigorous analysis of market dynamics, value propositions, and value capture, to propose a novel new business model innovation in this space.

Each team must also decide if they would like to propose their innovation as an internal initiative for an existing market firm or if their proposal will be positioned as a new venture for entry into the market space as an entrepreneurial start-up. If the proposal focuses on an internal initiative, the proposing team must clearly identify the specific firm they are targeting for this innovation, and the proposal will be made as if they are internal employees (top management team) in this organization presenting the proposal to their board of directors. If the proposal focuses on a new entrant strategy, the proposal will focus on gaining the support of venture capitalists (or similar) for their proposal.

The net result of this work will be reflected in two deliverables in class. One will be a final project proposal, laying out the idea and support for the proposal. The second will be an in-class presentation of the idea. Both are described below. The format of the final project proposal should adhere to the following format tightly:

1. *Executive Summary and Narrative Story of Proposed Business Model Innovation*
 - Try to make this as realistic, polished, and impressive as possible. This is the centerpiece of your final report. Tell your story. In the following sections you will dig into data, the details of your proposal, risks, implementation, and pro-formas. In this section you want to hit the high points in as compelling a format as possible. Capture people's attention with key facts or market dynamics. Craft a vision of what might be possible. Situate your proposed solution into the market as it exists now and where you think it is going. What is new here? Why is this such a big deal? What kind of return might I be looking at here?
2. *Overview of the Market Space as it Exists Today*
 - *Strategy Canvas – Business Models and Value Mapping in the Industry*
 - Using any of the tools presented in class and in the readings, each team should provide a concise and targeted analysis of how value is constructed in the target industry as it exists prior to the proposal. Visual aids are helpful here, in the form of tables, flowcharts, or any tools for conveying the map as it currently sits.
 - *Quantitative Analysis of Current Market Value Proposition*
 - Using the tools of business analytics, such as industry demand forecasting, sales and consumption data, market share analyses, pricing issues, cost structure data, economic value estimation, and industry analysis each team must present as compelling data as possible to convey the nature of value creation and appropriation in the industry as it exists prior to innovation.
 - *Qualitative Analysis of Customer Needs*
 - Using the tools of qualitative inquiry, each team must conduct an investigation into the nature of customer value in or near the market space being targeted. This could involve a high-touch experimental investigation, or simply a deep dive into the experience of customers using publically available / archival data / social media / interviews / a focus group / any form of richly described information on customer experience and perceptions. This should be described in detail and then

insights derived from the analysis should be specifically articulated to inform the proposal.

3. *Unmet Value Proposition*
 - This should be a clear, precise, and direct articulation that directly derives from the analyses presented in the prior section (market space analysis). The goal is to plainly and convincingly communicate where value could be derived (for customers and for those who serve them) in a new or novel way. Focus of this section is solely on value creation.
4. *New Market Space Solution*
 - In this section the team should lay out, in as much detail as possible, their proposed business model innovation. What is new here? Why is this so attractive? How does this proposal create market space that was not previously targeted / served?
5. *Competitor Analysis*
 - This should be a clear discussion of which competitors or market dynamics could serve as obstacles to implementation of the proposed vision, which competitors would be most threatened, and a game theoretic type of analysis of how competitors might respond.
6. *Keys, Challenges, and Solutions for Proposal Implementation*
 - This should be an even-handed discussion of the challenges your company would face in trying to implement the proposal. The point here is not to dwell on obstacles, but to be very candid and transparent with a focus on the challenges. Each presented challenge should be addressed with a plan for overcoming the obstacle. What assumptions are being made about implementation? Are these viable?
7. *Metrics / Rough Pro-Forma*
 - This should be a review of several key metrics that the team will use to assess progress in achieving its vision for the proposed business model innovation. What metrics will be most impacted? What would success look like? What types of metric feedback would be sufficient for recognizing failure? What rough-range sales / market share projections might be possible under best case scenarios / average estimates / worst case scenarios? Be specific, but use ranges. Ground numbers in some supported data / reality. Is the risk worth it for this size of a potential return? Provide at least a rough pro-forma statement with projections of sales, expenses, and profit. One piece that must be included: how much money do you need to launch?
8. *Timeline for Implementation*
 - What kind of timeline is being targeted for implementing this solution? What would worst-case timing look like? Best case? How big of a deal is timing?
9. *Conclusion, Inspiration, Vision*
 - This section should be a forward looking discussion of what might be possible. Convey your conclusions, your vision. Be inspired, convey inspiration. Ground your enthusiasm in your pro-forma projections, but describe what this would mean for investors / shareholders / owners if the proposal succeeds.

Final Project Proposal. The written report should be about 15 pages, with 11-point font, 1 inch margins, and 1.5 line spacing. Each section can be of any length, but the overall report should be about 15 pages while covering each topic. Please clearly delineate each section of the report with clear and bolded headings. Each team is free to add tables or appendices to its report; and they will not count against the page limit but must be referred to in the body of the paper. Prepare, stylistically, as if this were an actual deliverable report to a VC firm or a board of directors. Stay in character. Part of the final grade for the

project will include an assessment of the visual polish level / impressiveness of the final document. Graphics, images, and visuals can be very effective at creating an emotional connection to the ideas. Show off your very best design skills – present this data in as compelling a format as possible (while adhering to the structure outlined above). This written report is due on the day of the group’s presentation.

Presentation with Q&A. Each team will be responsible for presentation of their final proposal in class. The target will be for each presentation to last approximately 10 minutes focusing on the core material need to most persuasively convince their core audience (either their board or a group of VCs) to support their proposal. All elements of effective presentation should be on display – professional dress, effective speaker dynamics / transitions, compelling visuals / media, persuasiveness, and polish. Convince your audience that what you are presenting is essential, rigorous, and interesting. After the 10 minute presentation concludes, the team will take about 5-7 minutes of questions from other students acting as their core audience.

Student grades for the final project will be based on the viability of the team's ideas as demonstrated in the report, presentation, and Q&A session. Advisory to my evaluations of the quality of these ideas will be the evaluations of the team’s ideas made by a peer group that will prepare a written report from the perspective of a board/team of VC investors. Intra-team peer evaluations will be used to adjust team members' grades as deemed necessary by the instructor.

Team contribution:

- Since the purpose of the group project is to learn to work in a team environment, each member of the team will be given a chance to evaluate the relative contributions of all other members. Based on these evaluations, I may increase or decrease your individual score. For example, if a particular team member is deemed to have done much more work than anyone else, he or she may have his/her written analysis score increased slightly. Similarly, someone deemed to have skipped an excessive amount of meetings and generally not done their fair share of the work may have points deducted. Individuals will be able to evaluate their team members along the following dimensions:
 - ◆ Whether or not the member attended scheduled team meetings
 - ◆ Whether or not the member responded to team communications in a timely manner
 - ◆ The amount of participation and contribution at team meetings
 - ◆ Whether or not the member worked well with other team members
 - ◆ The quality of work
 - ◆ The member’s overall contribution to the team
- I expect members of each group to meet regularly with one another to work on this project over the course of this term. The best policy is to make sure each team member knows what his or her responsibilities are upfront so that there is no misunderstanding later.

ATTENDANCE POLICY

This is a team-based, experiential course. Consequently, attendance is critical. Please make every effort to be at all classes. Frequently missing classes will be reflected in lowered participation grades. Also, all assignments are due at the beginning of the class period they are due. ***No makeup assignments will be offered.*** Any absence could have a negative impact on your total semester points.

COURSE GRADE CALCULATION

30%	Final Exam	300 points	Individual
30%	Final Project Proposal – Presentation – Final Report	300 points	Team

25%	Participation	250 points	Individual
10%	Transform an Incumbent Presentation	100 points	Team
5%	Strategy Journal	50 points	Individual

		1000 points	

SPECIAL ACCOMMODATIONS

I believe everyone deserves to be able to take the course without undue hardship deriving from conditions such as physical or learning disabilities. If you have any such condition, please notify me in the first week of class and I will strive to make appropriate accommodations.

HONOR CODE

If you are enrolled in this course, you are agreeing that you have read, understand and accept the University's policies and procedures regarding academic integrity and the honor code. All course interactions are governed by the Notre Dame Honor Code.

Academic dishonesty will not be tolerated. Although you may discuss assignments outside of class, turning in identical assignments (when such assignments are not group assignments), plagiarizing previously written materials (whether such materials are from a current or previous term of this class, from Wikipedia, or elsewhere) or copying off of others during exams will be considered cheating and will be penalized as dictated by university policy. The use of solution manuals, other students' solutions, notes from note-taking services, etc., will be considered dishonest and treated accordingly.

OTHER COURSE POLICIES / NORMS:

- Turn off and do not use cell phones or wireless devices in class. These are distractions to fellow classmates and can disrupt the class.
- Be funny. Take controversial positions. Be a devil's advocate. Use examples from your own experience. Ask difficult questions. Try to connect the ideas in class to things you have heard / read about in the media. Having fun in this class makes the learning environment more positive for everyone.
- Although I often take a casual and informal approach to lecture and facilitating an interactive learning environment, I take course grading very seriously. I am happy to explain grading rationale, but assignment grades are non-negotiable. This class, like all classes in Mendoza, is subject to Mendoza grading policies, which can alter final grades. Please respect our relationship by respecting the integrity of the course and its evaluation systems.
- I am happy to meet with students and groups in and out of class. Come up and talk to me at the beginning or end of class, as we can usually sort out most questions / problems through open communication.
- Email is almost always the best way to get in touch with me outside of class.