To be competitive and stay competitive in today's business environment, you have to be fast on your feet. Saul Kaplan knows how to take innovation from napkin sketch to market share, and in this book, he teaches you exactly how to create your own "innovation factory" from scratch. Be ready: once you start working with these ideas, it might be hard to stop!
—Daniel H. Pink, author of Drive and A Whole New Mind

"Saul Kaplan, the innovator's innovator, shows you how to transform the sense of what's possible in your field, whether you're running a company or leading a community. If you want to win big, you have to change the game. This inspiring and instructive book is a game plan for game-changers."
—William C. Taylor, Co-Founding Editor, Fast Company, and author of Practically Radical

"Saul gets below the buzzwords of innovation and provides an inspiring and actionable road map to help transform how any organization creates, delivers, and captures value. The Business Model Innovation Factory is a must-read for any leader who wants to deliver innovation in the twenty-first century."
—Tony Hsieh, author of Delivering Happiness and CEO, Zappos.com, Inc.

"New products and tweaks to your current business model are not enough in today's environment. You need a way to continuously test new ideas and markets. Creating the 'business model innovation factory' described in Saul's book is the next step for any leader who wants to stay ahead of a changing world."
—Alex Osterwalder, co-author of Business Model Generation

"Saul Kaplan is a one-man business model innovation factory! Every established leader and budding entrepreneur needs to read this book to find the way to real market-making innovation. Buy it, read it, do it!"
—Alan M. Webber, Co-Founding Editor, Fast Company, and author of Rules of Thumb

Business model innovation is a team sport. It requires all of us to build stronger collaboration muscle and to become more comfortable with and much better at connecting across silos, disciplines, and sectors. The Business Model Innovation Factory provides leaders with the survival skills to create a pipeline of new business models in the face of disruptive markets and competition.

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Blockbuster’s executives saw Netflix coming. Yet they stuck with their bricks-and-mortar business model, losing billions in shareholder value. They were “netflixed.”

Business models just don’t last as long as they used to. Historically, CEOs have managed a single business model over their entire careers. Today, all organizations must be capable of designing, prototyping, and experimenting with new business models. The Business Model Innovation Factory provides leaders with the survival skills to create a pipeline of new business models in the face of disruptive markets and competition.

Business model innovation is a team sport. It requires all of us to build stronger collaboration muscle and to become more comfortable with and much better at connecting across silos, disciplines, and sectors. The Business Model Innovation Factory provides innovators with a set of fifteen actionable principles to guide business model innovation efforts, including:

- Realize that you are catalyzing something bigger than yourself
- Build purposeful and flexible networks
- Make systems-level thinking—and action—sexy
- Be creative and engaged in designing the core models that drive businesses, institutions, industries, and cultures
- Passion rules—exceed your own expectations and take risks with confidence
- Be an inspiration accelerator and inspire many toward the end game: transformation

Innovators need to experiment and embrace the art of discovery. Innovation requires that you get off the whiteboard and into the real world.

—continued on back flap—
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Introduction

Sometimes tweaks aren’t enough. Sometimes nothing short of reinventing yourself, your organization, or your community is called for. The beginning of the twenty-first century is one of those times. If anything is certain about the new millennium, it’s the pace of change. New technology relentlessly hurdles into our lives. Ideas and practices travel around the world at Internet speed. Social media enables individuals to self-organize and reorganize in ways unimaginable in the twentieth century. We also live in anxious times marked by economic uncertainty, but one thing is clear: relevancy is more fleeting than ever. How to stay relevant in a changing and uncertain world is one of the most important questions of our time.

Thriving in the midst of today’s frenetic pace of change requires a new set of approaches and tools. Incremental change may have been enough at the end of an industrial era marked by “me-too” products and services, process reengineering, best practices, benchmarks, and continuous improvement. We have built institutions that are far better at share taking than at market making. We have become really good at tweaks. There are tons of books, experts, and tools to help us make marginal improvements in the way things work today and to fight it out with existing competitors for one more share point. But how do we become market makers? Incremental change may be necessary but it isn’t sufficient for the twenty-first century, which will be defined by next practices, disruptive technologies, market making, and transformation.

The Business Model Innovation Factory is a book for all leaders who recognize that incremental change isn’t enough. It’s a book about transformation. It doesn’t matter what type or size of
organization or community you lead or aspire to lead. It could be a
for-profit or nonprofit company, a school, or a government agency.
It could be a nation, state, or city, or maybe even an online commu-
nity. Or maybe you are one of a growing number of free agents
working across projects and networks. Regardless of organization
type or leadership role, all leaders need to learn the art and practice
of transformation to stay relevant in a changing world. The most
exciting and best opportunities require entirely new business mod-
els or ways to create, deliver, and capture value. The challenge all
leaders face is how to reinvent a business model while the entire
organization is working hard pedaling the bicycle of the current
one. The twenty-first century screams for transformation, not
tweaks. The Business Model Innovation Factory is a book for
transformers.

I was inspired to write this book after spending thirty-plus years
as an innovation junkie with every imaginable black and blue mark
that comes from being a diehard change agent. I have been a student
and innovation practitioner across the public and private sector, in-
dustries, and disciplines. I have observed hundreds of organizations
and thousands of innovators attempt to do transformational things
and settle for doing incremental things. The patterns are clear and
the need for business model innovation seems obvious. I wrote this
book to share my experience and ideas on how you can create a
business model innovation factory to stay relevant in a changing
world. The book is organized in four parts:

Part I: What You Have Always Done Isn’t Working Anymore
Part II: Connect, Inspire, Transform: 15 Business Model Innova-
tion Principles
Part III: Creating a Business Model Innovation Factory
Part IV: Business Models Aren’t Just for Business

The book’s first part establishes the basic building blocks of a
business model and makes the case that business model innovation
is the new strategic imperative. The goal for all leaders is to avoid
being “netflixed.” If netflixed isn’t a verb it should be! Blockbuster saw DVD technology and Netflix coming. The United States Postal Service saw e-mail coming. University presidents see online content and social media platforms changing the way students learn. Yet when faced with the obvious and growing threat of a disruptive competitor, organizations remain stuck in their current business models. It’s amazing how few organizations can clearly articulate their business model. Can yours? If you ask any 10 people in your organization to describe your current business model, will the answers even be close? Most leaders know there are alternative and potentially better ways to create, deliver, and capture value but struggle with how to change their business models.

In the face of a serious disruptive threat most leaders do what they are comfortable with and know how to do—they strengthen and become even more entrenched in their current business models. They add new products and services to the current model, deploy technology to strengthen current capabilities, extend the current business model into new markets, and they try to create favorable laws and go to court to block new business models. These strategies may create value in the short-term but none of these efforts to strengthen existing business models are effective for long in the face of a disruptive competitor that is changing the way value is created, delivered, and captured through an entirely new business model. Disruption is now the norm instead of the exception.

Leaders could get away with blindly focusing on a single business model in the twentieth century, when business models rarely changed. Most industrial-era leaders never had to change their business model. One model worked throughout their entire careers. They could focus on improving their market position and competitiveness by making incremental improvements to the existing model. Disruptive threats were rare and could be safely ignored. Not so in the twenty-first century, when the half-life or longevity of a business model is decreasing. Business models just don’t last as long as they used to. New players are rapidly emerging, enabled by disruptive technology, refusing to play by industrial-era rules.
Business model innovators aren’t constrained by existing business models. Business model innovation is becoming the new strategic imperative for all organization leaders. But how do you transform a business model while still living in the current one?

The book’s second part provides innovators with a set of actionable principles to guide business model innovation efforts. It provides 15 actionable principles based on the observations of this innovation junkie throughout a 30-year career—practicing innovation while meandering across industry, consulting, government, and nonprofit leadership roles, and the over eight years of work with an incredible team at the Business Innovation Factory (BIF), a nonprofit I founded and lead as its Chief Catalyst, focusing on enabling real-world labs for business model and systems-level transformation. I have had the privilege of connecting, convening, exploring, and creating with some of the most inspiring innovators on the planet, and the principles of business model innovation detailed in this book come from this wonderful innovation journey.

Fifteen business model innovation principles are organized into three main themes: Connect, Inspire, Transform. Business model innovation is a team sport. It’s bigger than any one of us. It’s a collaborative act and connections are key. It requires all of us to build stronger collaboration muscle. The best value-creating opportunities are in the gray areas between us. We must become more comfortable in the gray area and get much better connecting across silos, disciplines, and sectors. The most exciting new business models are networks connecting capabilities across boundaries.

Successful business model innovators are inspiration accelerators. People excel at and commit to what they are passionate about. Transformation can only happen when people are committed to the hard work of change. People must be inspired and emotionally vested in cocreating a new future. Without inspiration business model innovation doesn’t happen. The path to inspiration is through storytelling, one of the most important tools for any business model innovator. It’s the best way to create emotional connections to new business model concepts and innovations.
Sharing stories is how to create a network of passionate supporters that can help make new business model ideas a reality. We remember stories. We relate to stories and they compel us to action. A business model is the story of how value is created, delivered, and captured.

Transformation is hard. We have to make it easier by creating the conditions for ongoing experimentation. It’s easy to sketch a new business model on the whiteboard. It’s much harder to take the concept off of the whiteboard and put it in to the real world. We spend far too much time thinking and planning and nowhere near enough time experimenting in the real world to see what works. We need to try more stuff. We can’t possibly know if a new business model idea will work sitting in a conference room. We have to create the conditions in the real world where we can do R&D for new business models. If we want to stay relevant in the twenty-first century we have to experiment all the time. Leading organizations will have several business model experiments going on at all times.

New business model ideas come not by looking through the lens of the current business model, but by learning how to look through the lens of the customer. Transformational business models must be designed around ways to improve the customer experience, not around ways to improve the performance of the current business model. Business model innovation starts by bringing the voice and experience of the end-user into the center of an iterative design process.

When woven together, these 15 business model innovation principles provide guidelines to enable entirely new ways to create, deliver, and capture value. They enable transformation.

The book’s third part provides an implementation road map to create a business model innovation factory. It answers the key operational questions: How do you conduct R&D for new business models? How can your organization establish a business model innovation factory? Business model innovation is the new strategic imperative and yet most leaders say they don’t have the organizational capability to design, prototype, and test new business models.
Innovation is a better way to deliver value. Innovation is different than invention. It’s only an innovation when it has actually delivered value or solved a problem in the real world. Invention is great but it’s just an input to innovation. Innovation is about delivering value and requires a business model. Business model innovation is about new ways to create, deliver, and capture value. Many new business models don’t require any invention at all. Often new business models just combine and recombine existing technologies and capabilities in different ways to change how value is delivered.

The real trick is creating a business model innovation factory where technologies and capabilities can be remixed in new combinations to deliver value. The imperative is to do R&D for new business models. Not just concepts on a whiteboard or in a consulting deck, but R&D in the real world to explore the viability of a new business model in real market conditions. Not just tweaks of the current business model, but entirely new ways to create, deliver, and capture value. Organizations need a business model innovation factory to explore new business models unconstrained by the current one.

A successful business model innovation factory has the autonomy and resources to explore even those business models that might disrupt the current one. At the same time it’s connected to the core business in order to access existing capabilities to enable and accelerate business model experimentation. Easier said than done! The practice of R&D to develop new products and technologies is well established. Most organizations know how to develop new products that can be commercialized by the current business model in order to create new top line revenue growth. The new imperative is to establish the capability to do R&D for new business models, even those that might disrupt the current one.

Important implementation questions addressed in this section of the book include: How do you organize, staff, and resource a business model innovation factory? How do you test new business models in the real world? How do you manage the inevitable organizational conflict between a business model innovation factory and the core business? How do you scale a promising business
model and deal with the threat of cannibalization to your current business model?

The book’s fourth part demonstrates that business model innovation isn’t just for business. One of the biggest surprises from the time I spent working in the public sector is how strenuously social sector organizations resist the notion that they have a business model. Nonprofits, government agencies, social enterprises, schools, and nongovernmental organizations (NGOs) consistently proclaim that they aren’t businesses, and therefore business rules don’t apply. Well, I’m sorry to break the news, but if an organization has a viable way to create, deliver, and capture value, it has a business model. It doesn’t matter whether an organization is in the public or private sector. It doesn’t matter if it’s a nonprofit or a for-profit enterprise. All organizations have a business model.

Nonprofit corporations may not be providing a financial return to investors or owners, but they still capture value to finance activities with contributions, grants, and service revenue. Social enterprises may be mission-driven, focused on delivering social impact versus a financial return on investment, but they still need a sustainable model to scale. Government agencies are financed by taxes, fees, and service revenue, but are still accountable to deliver citizen value at scale. The idea that business models are just for business is just wrong. Any organization that wants to be relevant, to deliver value at scale, and to sustain itself must clearly articulate and evolve its business model. And if an organization doesn’t have a sustainable business model, its days are numbered.

Perhaps the most important reason for developing common business model innovation language across public, private, nonprofit, and for-profit sectors is that transforming our important social systems including education, health care, and energy will require networked business models that cut across sectors. We need new hybrid models that don’t fit cleanly into today’s convenient sector buckets. We already see for-profit social enterprises, nonprofits with for-profit divisions, and for-profit companies with social missions. Traditional sector lines are blurring. We’re going to see
every imaginable permutation and will have to get comfortable with more experimentation and ambiguity. Economic prosperity and solutions for our big social system challenges require business model innovation across sectors. All organization leaders must learn how to do R&D for new business models. Nonprofit, social enterprise, school, and government leaders aren’t exempt. Business models aren’t just for business.

It's a great time to be a business model innovator. This is the innovator's day. The good news is that during turbulent economic times everyone looks to innovators for new solutions. The bad news is that we have turned innovation into a buzzword. Everyone is an innovator and everything is an innovation. And of course when that happens no one and nothing is. We have to get below the buzzwords. The Business Model Innovation Factory is for all leaders who want to stay relevant in a changing world. It makes the case for business model innovation as the new strategic imperative, shows how organizations can reinvent themselves by doing ongoing R&D for new business models, and provides an implementation road map for all business model innovators who want to go from tweaks to transformation.
There, you’ll discover how to design for this user-centered world. Don’t get netflixed. Make your organization a business model innovator and stay competitive in today’s turbulent world.

SAUL KAPLAN is the founder and chief catalyst of the Business Innovation Factory (BIF), a real-world laboratory for exploring and testing new business models and social systems. BIF has attracted a global community of over 5,000 innovators and organizes the internationally renowned BIF Collaborative Innovation Summit. Saul shares his innovation musings on Twitter (@skap5) and his blog (It’s Saul Connected), and as regular contributor to the Harvard Business Review, Fortune, and Bloomberg Businessweek.
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