Innovation: Sustaining versus Transforming

Today’s organizations cannot escape the nearly constant message that they must innovate to survive, and most dutifully respond with some type of innovation program. More often than not, though, the focus is on incremental product innovation: a better, faster, cheaper version of the current core business offering. It is the natural tendency of organizations—and especially the people that comprise the organization—to do more of what has led to success in the past, doubling down on current competitive advantages to respond to new challenges.

However, in many of today’s markets the rate of change demands that companies be able to move far beyond better, faster and cheaper; turbulent environments challenge organizations to make changes to their business model element—market position, revenue model, product system, user experience, etc.—in order to remain relevant. Innovations to an organization’s business model, though, require that attention be paid to the human element of the organization because it is these business model elements that define staff roles, responsibilities, metrics and rewards. Business model innovation means fundamental change for the organization and demands change of the people that comprise it.

The importance of innovation is widely accepted, but often the focus is on sustaining product innovation: better, faster, cheaper versions of what the company is already doing. The rapid rate of change in today’s markets demands that companies be able to offer new and different value to customers, and business model innovation may enable growth through new market position, new user experiences, new revenue models, etc. The business model is a big part of what defines roles within the organization, and successful business model innovation requires attention be paid to the effect changes to it have on individual roles, and what human resource preparations and interventions will be required in order to deliver on the change.

Business Model Innovation and Its Impacts on Roles and Expectations: Videon Case Study

By Maria T. Spencer and Phillip J. Ayoub

The importance of innovation is widely accepted, but often the focus is on sustaining product innovation: better, faster, cheaper versions of what the company is already doing. The rapid rate of change in today’s markets demands that companies be able to offer new and different value to customers, and business model innovation may enable growth through new market position, new user experiences, new revenue models, etc. The business model is a big part of what defines roles within the organization, and successful business model innovation requires attention be paid to the effect changes to it have on individual roles, and what human resource preparations and interventions will be required in order to deliver on the change.
In many organizations, the innovation conversation takes place in relative isolation within some subset of the organization, and human resources (HR) may or may not be at the table. While product innovations may churn through without interrupting the human element of the organization, more dynamic changes which impact strategy, value proposition and other fundamentals of the business model require individuals to function and work with each other differently. If business model innovation is approached without consideration of the complexity and human factors involved in changing roles and business model elements, the effort is likely to be limited, rather than enabled, by the organization’s HR.

The Business Model Drives Behavior

Inasmuch as the business model drives individuals’ working relationships, accountability and goals, it thereby defines roles, expectations and organizational identities. These roles are further institutionalized in the way organizations make decisions, how strategic responsibilities are distributed, and how individuals and departments are rewarded. Change in any of these areas may alter the authority of leadership, change the workflow and affect the depth versus breadth of expertise required for positions. This fundamental change requires buy-in from the affected individuals in order for the initiative to be supported.

These were the key takeaways from the following case study, which profiles the initiation of business model innovation at Videon Central, a 16-year-old technology firm that observed the significance that role expectations played in the rollout of what the company dubbed a “strategic pivot.”

Meet Videon

Since its inception as a five-person organization in 1997, Videon has grown to employ 85 people and generated 2012 revenues of $14 million from the design and engineering of optical hardware and software integral to more than 30 million devices, from home media players to in-flight entertainment systems. Throughout its history, Videon has enjoyed an average of 17% year-over growth with an engineering services business model designed around developing intellectual property for clients’ optical media products in order to speed their time to market and aid in the scaling of new products and technologies.

The business model was addictively simple: ask what the clients want, then design and deliver. This business-to-business model meant Videon looked to its clients—many of whom are leaders in their industry—to pull them into new products and new markets. “Being the CEO of an engineering services company was easy; it just came naturally,” recalls CEO Todd Erdley of Videon’s early days.

Initiating Change and Reframing Strategy

The engineering services business model allowed Videon to grow and thrive with incremental, product-based innovations, so long as the industry—Videon’s customers—controlled media delivery options. But Erdley clearly recalls the onus for innovating Videon’s business model: “Napster opened my eyes, and the writing was really on the wall with BitTorrent.” Control in the optical media market was moving away from hardware providers in favor of consumers who had a growing number of digital options through which to consume their media. Recognizing an opportunity to move up the value chain to align with the shifting power in the market, Erdley asked his senior staff to help him lead the organization in a pivot that would shift the company away from the safe and well-defined client-driven engineering services model toward a market-driven technology solutions model. In this new model, Videon would spearhead its own market intelligence and product development efforts so as to take ready-made offerings—not just engineering services—to its clients. The pivot would position Videon to offer its
existing clients a new value proposition: far greater speed to market through cutting-edge, market-driven technologies.

**Reframing Strategy and Moving from “What” to “Why”**

Erdley notes that Videon’s strategic pivot represents a move away from client-driven technologies that enable media devices toward a market-driven media ecosystem that enables consumers, a move initiated by what he conceptualizes as the reframing of “what” his company did toward “why” the company did it. He credits this inspiration to Simon Sinek’s 2009 publication, *Start with Why*, where he said, “people don’t buy what you do, people buy why you do it.” Within the context of the pivot, the conceptualization of “what” to “why” represents the move away from the company’s engineering services past toward the market-driven future, and it became the foundation for both the strategy and role changes at Videon.

The new market-focus and product-development processes necessitated different working relationships between production, engineering, and research and development, and the roles of senior leadership had to change in response. The foundation for this change was laid early and tended to often. According to Erdley, “From day one I promoted the concept that Videon’s organizational chart was a circle with the customer in the center. Roles are of equal importance, different responsibility. You are the caretaker of a role, not its owner. When it came time to pivot, the process meant redefining what part of the circle you were the caretaker of.”

Erdley further chipped away at role-based identities and expectations by asking staff to reframe their work in terms of the same “why”-based philosophy that drove the strategic pivot, challenging his staff to look beyond their historical roles and instead focus on why they want to be part of Videon’s future. And even though the foundation for role change had been laid, the process was still extraordinarily difficult. Erdley had to leverage the entirety of the trust and credibility he had earned over the years and champion the pivot with near-constant visioning. Videon’s leadership staff very candidly recognized the critical importance of all three with regard to their buy-in to the change.

Videon’s executives also noted the tension created as the change moved them beyond their previous roles, which required flexibility and the “wearing of multiple hats” into positions that required more specific focus and depth of expertise. Erdley summarized, “As you develop depth, you can’t go as wide. In order for the company to grow, people had to be willing to give up pieces of their role, and that was hard. But in giving up part of your role, you can take on deeper responsibilities in other areas. You have to give to get.” Videon’s leadership noted, as the company continues to grow, balancing role focus and flexibility will be an ongoing struggle.

**A New Vision Alone Will Not Transform the Organization**

Any organization undertaking systemic innovation must continue to manage the core business, while simultaneously developing entirely new models to address turbulent changes in the market. These case observations underscore the human element of this tension, and how a major step in business model innovation is reframing the depth and breadth of roles and expectations. Videon’s experience tells us that such transformations can be managed proactively by de-emphasizing entitlement from a “what”-based role in favor of a “why”-based identity within the organization.

To successfully manage this complexity and change, we know from practice that leaders can employ three effective tactics. First, manage the organizational transformation like a campaign—a large-scale, long-duration, and significant series of strategic planning of inter-related operations. Second, use iterative prototyping of the new business model, and, in turn, of the new roles. Organizational participation in the iteration process promotes buy-in, reduces ambiguity and provides a clear vision that helps employees grasp the nature of the change and learn their new roles within it. And third, HR should have a strategic role in any business model innovation efforts to support the fundamental shift in people’s roles and expectations.

Maria T. Spencer, MBA and Ph.D. candidate, is a business consultant at the Penn State Small Business Development Center, where she specializes in technology commercialization, manufacturing innovation and export trade development. She has authored and co-authored multiple publications.

Dr. Phillip Ayoub is a senior consultant at Doblin, the design-led innovation and strategy arm of Deloitte Consulting LLP. At Doblin he guides clients in setting their innovation strategy, creating breakthrough businesses, and building effective innovation capabilities.

About Deloitte: Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms. Please see www.deloitte.com/us/about for a detailed description of the legal structure of Deloitte LLP and its subsidiaries. Certain services may not be available to attest clients under the rules and regulations of public accounting.