

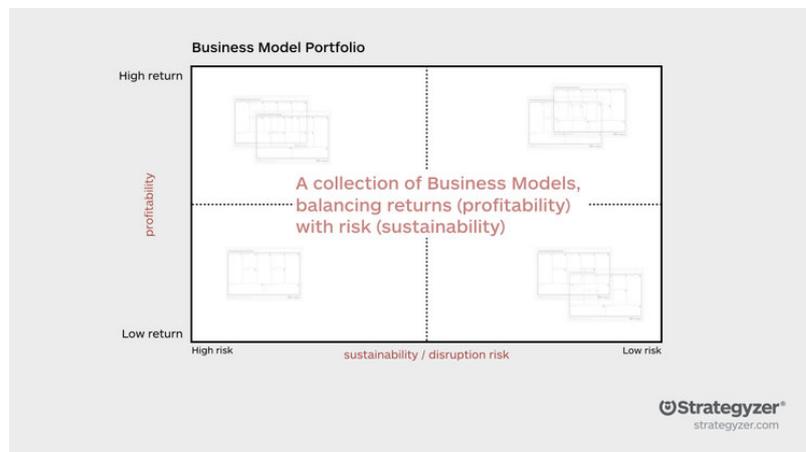
Business Model Portfolio

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In this three part trilogy, we walk through our new prototype concept for helping companies visualize and manage their business model portfolio. Why? Businesses need a way to measure and assess if the existing portfolio is healthy; if their business is prone to disruption; and ultimately, to help companies make better investment decisions.

Part 1: Manage The Existing Business

Part one focuses on managing the existing business. Every portfolio starts with a look at managing and improving the businesses you already have. In our prototype, we visualize the portfolio of existing businesses on two axis:

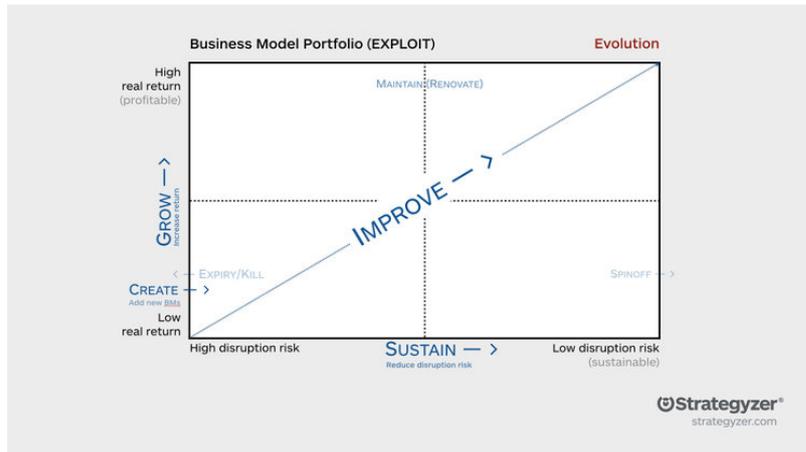


1. Profitability: How much profit do the existing business models generate? Business models with high profit margins, and a lot of profit, sit at the top end of the spectrum. Low profit margins and low profit overall sit at the bottom--these could potentially be very large businesses but they are not very profitable. This of course is the most traditional end of the spectrum.

2. Sustainability or disruption risk: How sustainable is your business model, and how likely is it to be disrupted? Models at risk may be very established businesses, but prone to disruption for technology, market, or regulatory changes. Those companies sit on the left hand side. Strong business models with moats to protect them on the other hand are very unlikely to be disrupted. They sit on the right hand side.

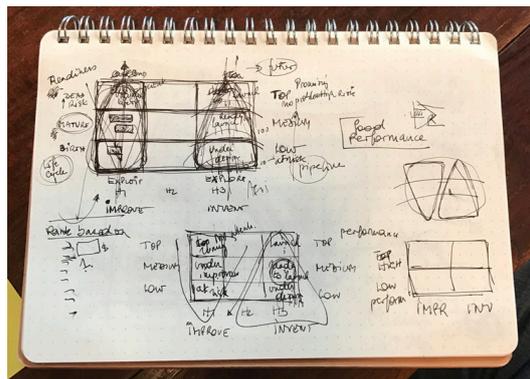
Look at your existing business models and place them on the visual Portfolio Map we prototyped. Obviously you want to strive for very strong business models that your protect your organization from the competition.

We also experimented with adding visual annotations to the map. This would allow making conflicts or synergies between business models explicit. We could also indicate concrete financials, trends or trajectories of business models (e.g. growing, shrinking, etc.).



In the second image we sketched out different business model actions. Ultimately, you want to improve all your businesses and move them to the top right corner. In other words, you try to make every business more profitable (obviously), but also more sustainable and less prone to disruption. For example, it's more sustainable to compete on better business models and not just products that are often easier to copy. An existing business that is likely to be disrupted can be renovated and moved to the right to make it more sustainability.

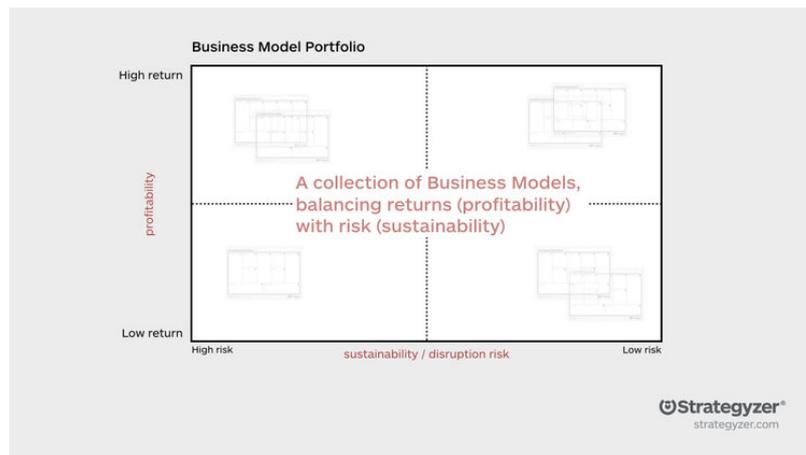
Businesses that were once very profitable (like Kodak's analog film business) fall to the left hand side from being hard to disrupt (e.g. patents or size) to being very likely to disrupt (emergence of digital photography). That business model expired. On the other hand, completely new business models come in at the bottom end of the spectrum because they are not yet established. You need to grow and protect a new business model to move it up the spectrum.



Part 2: Manage New Business Initiatives

This second helps companies visualize and manage their business model portfolio. We show how you can best represent an organization's portfolio of new business (model) initiatives to create new growth engines.

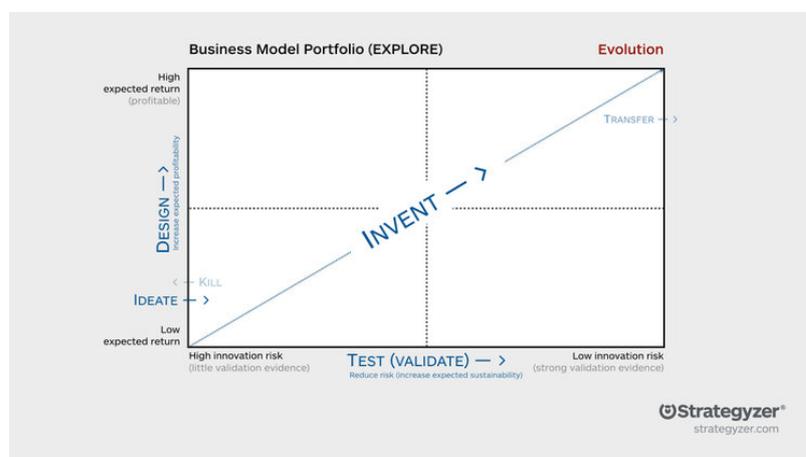
In this post we explain the second part of our new Business Portfolio Map: the visualization of new business models and growth engines. The very best companies of our times excel at simultaneously managing existing businesses and inventing new ones is what. To visualize the portfolio of potential new businesses we use two axis, similar to the business model portfolio of existing businesses in part 1:



1. Expected return: Ideas and initiatives that have only limited potential to create substantial future revenues and profits go at the bottom of the spectrum. Limitations include size of market, revenue potential, pricing, etc. Business models with large potential revenues and profits sit at the top of the spectrum. Equally important here is to judge how robust a business model is: e.g. in terms of recurring revenues, long term growth, scalability, protection from competition, etc.

2. Innovation risk: On this axis you evaluate how much you de-risked a good looking business initiative. Ideas for which you have no evidence yet are very risky to invest in--these new initiatives sit on the left hand side. Ideas for which you rigorously test desirability, viability, and feasibility sit on the right hand side of the spectrum. The more you are confident an initiative will work based on tests and the resulting evidence, the more they move to the right. The more they are on the right hand side, the less risky they are to invest in.

It is important to point out that the invention of new businesses is a search process. Finding and validating a new growth engine is a very iterative process, contrary to the managing of an existing business.



In the second image we show the desired trajectory for every business (model) growth initiative: you aim to evolve it from a good looking idea to a carefully tested, validated and well designed business model with strong profit potential. The goal is to move every initiative to the upper right hand corner. A well-designed business model has moats that protect it; an interesting and growing market; and it's hard to disrupt.

Most of the time, the evolution to the upper right hand corner is not straightforward. Testing a business model could invalidate hypotheses, and require you to pivot the business model. It might also require you to go back and forth to the left hand side of the canvas to develop new prototypes and tests.

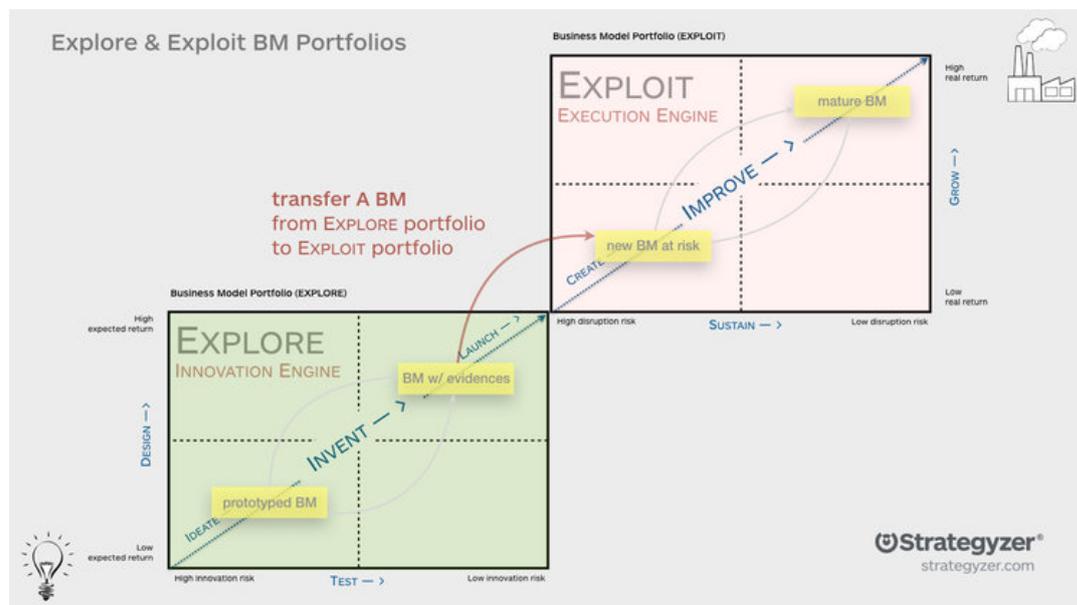
Business model initiatives at the upper right hand side are the ones you invest in and move to implementation. They become part of the portfolio of existing business models in the “execution engine”.

A well-designed portfolio of new business models and growth engines has a large number of initiatives on the left hand side, because only a small number of those initiatives will make it to the upper right hand corner. Only a small number of initiatives will make it to implementation. To produce a real winner you need a substantial portfolio of initiatives of which many will fail.

Part 3: Manage The Portfolio Maps

In this third part, we show you the full spectrum of our prototype Business Portfolio Map. The aim: help organizations understand if their business is prepared for the future or risks disruption.

The Business Portfolio Map visualizes a company’s entire portfolio of business models on a single map. In Part 3 you can see the full concept which is composed of the execution engine (exploit/improve) and the innovation engine (explore/invent). The Business Portfolio Map visualises all of your existing businesses, as well as all of your new growth initiatives. This holistic view shows you if your company is prone to disruption and at risk or if you are prepared for the future.



Let’s recap what we have talked about in Parts 1 & 2:

The Execution Engine: Exploit/Improve

This is where you manage your existing businesses. In your business portfolio, you hope to keep all your businesses highly profitable and sustainable at the top right of the exploit Map.

Businesses that fall from the top right down to the left are dying or sick businesses that you need to take care of. It may not necessarily mean you kill those businesses - that may be an option, but ultimately it's about renovating, improving and sometimes reinventing the business and moving it up to the top right hand corner.

New businesses that graduate from the Innovation Engine to the Execution Engine usually start out at the bottom left. They are still very fragile, barely profitable, and need a lot of care. Your goal is also to move them up to the top right hand corner.

Ultimately, a healthy Execution Portfolio has a good number of businesses at the top right, a number of young new businesses at the bottom left, and as few as possible anywhere else.

The Innovation Engine: Explore/Invent

When it comes to the Innovation Engine, you want to explore many, many different ideas. New business models and initiatives will start out at the bottom left of the map: their profit potential is unclear and you have little evidence to prove that the idea is likely to work. You have to iteratively design, test, and adapt the idea, its value propositions, and business models until it makes it to the top right hand corner: a tested business idea with substantial profit potential.

The particularity of the Innovation Engine is that you need a lot of cheap projects at the bottom left in order to product a winner that makes it to the top right. You need to explore, prototype, and test many ideas cheaply and quickly to learn and adapt. The investment at this stage isn't big. The more evidence you gather that an idea might work, the more you invest and start to move the idea up towards the right. Out of ten ideas maybe five will die, three will remain mediocre, and two will be home runs.

Be careful not to push promising ideas from the Innovation Engine into the execution space too quickly. These young businesses need traction, stability, and protection when you move them into the execution engine. They might get swallowed up by the execution engine or killed by the dominant business models' antibodies -- it's a corporate habit that can kill your innovation engine.

Are you prepared for the future?

The Business Portfolio Map visualizes how prepared your organization is for the future. You have an obvious challenge if you have only few businesses at the top right in the execution engine, and a lot of business at risk with low returns. You have an even bigger challenge when your innovation engine shows few new promising and validated future growth engines in the pipeline.

The ultimate goal of a balanced Business Portfolio Map is to show good, solid business models at the top right, and a lot of fresh new ideas at the bottom left. A few of those ideas should be creeping up to the top right of the explore square and soon make it to the Execution Engine. If you can visualize that for your business then you can say you're prepared for the future.

Amazon is an example we frequently cite of a company that intentionally manages a diverse portfolio of existing and promising new business models.

The company continues to produce growth with its existing businesses (e-commerce, AWS, logistics, etc.), while juggling a portfolio of potential future growth engines that may become big profit generators one day (e.g. Alexa, Echo, Dash Button, Prime Air, Amazon Fresh, Mayday Button, etc.).

How can you manage your business model portfolio?

We put together three steps to get started with the Business Portfolio Map:

1. Assess: Evaluate your present business model portfolio by analysing current and future business contribution (profitability & potential of new ideas) and risk (disruption risk & validation of new ideas).

2. Strategize: Define objectives, allocate resources and design your desired future business model portfolio. In other words, define actions in the Execution Engine (increasing returns / reducing disruption risk) and the Innovation Engine (allocating resources for new ideas and testing).

3. Process: Implement your innovation strategy and transform your portfolio with three type of actions:

- Create: acquire or transfer businesses from the innovation engine.
- Raise: Move businesses from the bottom left towards the top right corner.
- Eliminate: Sometimes businesses can be divested or spun off.