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Designing Business: New Models for Success

Heather M.A. Fraser, Rotman School of Management, University of Toronto
To maximize impact on corporate outcomes, design should be the path to understanding stakeholder needs, the tool for visualizing new solutions, and the process for translating cutting-edge ideas into effective strategies.
Great design has long been recognized as an important strategy for enterprise success. It is also broadly understood that the same methods and mindsets that create new “objects of desire” are instrumental in enhancing services and user experiences in meaningful ways. But the greatest payout of design thinking is in the design of business itself—the design of strategies and business models for enterprise success. By expanding design thinking across the organization and throughout the business development process, an enterprise can open up new opportunities, set more dramatic growth strategies, and evolve its business model to better seize market opportunities.

Enterprise need: The ability to navigate through change

The world today is dynamic and ever-changing.

- **Economic instability** around the world calls for new ways to address big challenges. There is no question that our global economy contains some flawed economic and social models.

- **Social values** are shifting, with higher expectations for corporate social and environmental responsibilities. Commercial ambitions, political agendas, and social needs are inextricably linked and must be considered as a broader ecosystem.

- **Global access** to world markets opens up new opportunities for commerce and expanded access to talent and business resources. This creates new opportunities for some, and poses threats to others.

- **Technology** has profoundly changed the ways in which people connect and business gets done, both locally and globally.

- **Marketplace expectations** are higher than ever. Consumers have come to expect better, more-sophisticated offerings and greater customization within the plethora of goods and services. The expectation now is that all people in all markets should have access to life-enhancing solutions.
Many companies are finding models and infrastructures that were successful in the past are now too rigid to rise to new challenges and opportunities. They are searching for better, faster, and more efficient ways of tuning up their organizations, mobilizing their human capital, and evolving their business models to get ahead of the curve. An emerging group of business leaders believe that design thinking plays a valuable role in unlocking new opportunities.

**The role of business design**

There is compelling evidence that the methods and mindsets behind great design in fields such as engineering, industrial design, and architecture are equally powerful in designing an enterprise model. Business design is about creating a model for symbiotically delivering market value and enterprise value. It embraces important design factors such as fostering multi-disciplinary collaboration, considering altogether new possibilities rather than aiming for incremental improvements, sourcing creativity from constraints, prototyping early and iterating quickly (both in the lab and in the market), and creating new and better models through systems thinking. Like all great design, business design requires skill and discipline, along with a healthy dose of courage, open-mindedness, imagination, and perseverance.

**The Method: The three gears of business design**

Drawing from and integrating the many tools and techniques used in both the design world and the business world, the methodology we call the Three Gears of Business Design (Figure 1) incorporates empathy and deep user understanding, concept visualization and prototyping, and strategic business design. It is not a linear process, but rather a framework for iteration that knits together user needs, powerful ideas, and enterprise success. By cycling through these three gears, work teams can get to bigger breakthroughs faster—using insights and unmet needs to inspire high-value conceptual solutions and extract strategic intent from the concepts to recast strategic business models.

**Gear One: Deep user understanding.** The first step is to understand your customer (and other critical stakeholders) more broadly and deeply. This helps reframe the business challenge wholly through the eyes of the ultimate end user and establish a human context for innovation and value creation. Companies are often well versed in measurement of the human factor in their business (in terms of demographics, habits, and segmentations). Many companies are finding models and infrastructures that were successful in the past are now too rigid to rise to new challenges and opportunities. They are searching for better, faster, and more efficient ways of tuning up their organizations, mobilizing their human capital, and evolving their business models to get ahead of the curve. An emerging group of business leaders believe that design thinking plays a valuable role in unlocking new opportunities.
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chip inserted into a uniquely designed running shoe that communicates to your iPod while you run, measures and motivates personal performance, and connects you to an online community of runners. Before this initiative was launched in 2006, Nike accounted for 48 percent of all running-shoe sales in the US.1 By late 2008, Nike had sold over 1.3 million of these sports kits to passionate runners who had logged in more than 100 million kilometers online. Today, Nike’s share of the running-shoe market is 61 percent, with a significant amount of its growth attributed to Nike+. In this case, everyone wins. The avid runner has a new means of pushing personal performance and connecting to a broader community, and Nike is rewarded with stronger sales and loyalty through a deeper and more engaging relationship with its consumers. Partners (such as Apple, in this case) win by being part of a broader ecosystem of consumer value. All that was inspired by a deep understanding of the user.

Deep user understanding is also highly relevant in an institutional context. For example, the healing process in a hospital is enhanced by a multitude of factors. Patients are often lacking in broad and deep understanding of the customer. It is this deeper understanding of needs that reveals important opportunities.

To broaden the lens of opportunity, it is important to look beyond the direct use of a company’s product or service, to the context in which it is used. For example, a food company will discover more game-changing opportunities by exploring the broader theme of healthy eating and lifestyles than by investigating the more narrow consumption of products such as frozen dinners. By exploring a broader set of activities, one gains deeper insight and a broader behavioral and psychographic perspective on the user’s life. It also allows one to understand consumers in the context of a given activity—what they do, how they feel, and how their needs link to other parts of their life.

As an example: Nike’s deep understanding of the runner goes way beyond the utility of the running shoe. Runners are deeply motivated by the standards set by winning athletes, their own drive for personal best, their achievement of personal goals, and the motivation they get from sharing their passion with others. In keeping with its mission to innovate and inspire the athlete in everyone, Nike tapped into this mindset with the Nike+ offering—a chip inserted into a uniquely designed running shoe that communicates to your iPod while you run, and connects you to an online community of runners. Before this initiative was launched in 2006, Nike accounted for 48 percent of all running-shoe sales in the US.1 By late 2008, Nike had sold over 1.3 million of these sports kits to passionate runners who had logged in more than 100 million kilometers online. Today, Nike’s share of the running-shoe market is 61 percent, with a significant amount of its growth attributed to Nike+. In this case, everyone wins. The avid runner has a new means of pushing personal performance and connecting to a broader community, and Nike is rewarded with stronger sales and loyalty through a deeper and more engaging relationship with its consumers. Partners (such as Apple, in this case) win by being part of a broader ecosystem of consumer value. All that was inspired by a deep understanding of the user.

1. According to SportsOneSource, a Princeton (N.J.) market research firm (BusinessWeek, November 2008).

An example of how this approach has helped one hospital re-image the patient experience is a project currently under way at Princess Margaret Hospital, a leading cancer hospital in Toronto. Design-style patient research was conducted to define the underlying needs of patients going through chemotherapy treatment as a brief for the redesign of a new systemic treatment center. Research revealed a number of foundational needs, including the need for an environment that creates a sense of calm and wellbeing, a communication system to help patients manage...
their time and diseases better, and a program to engage them during the process and turn lost time into found time. All of this pointed to an opportunity to completely redesign the patient experience as a means to promote healthy healing, and to redefine capital priorities to focus investment on the things that really matter in the delivery of better patient experiences and outcomes. The result was a focus on three development priorities: a complete overhaul of the space, and open up new opportunities to create value.

Gear Two: Concept visualization. This phase of development begins with the broad exploration of possibilities for serving the unmet needs discovered in Gear One, and moves through multiple-prototyping and concept enrichment, ideally with users. The most important mindset in this phase is to look beyond what is to what could be, using imagination to open up new opportunities to create value.

To broaden the lens of opportunity, it is important to look beyond the direct use of a company’s product or service, to the context in which it is used. New kind of treatment chair, and an IT system that would enable both patients and staff to better manage time and relationships, as well as the ongoing treatment. This foundation was also applied broadly to hospital practices at Princess Margaret Hospital by enrolling medical and administrative staff in the “need-serving” development process.

A deep dive with a broad lens in Gear One helps to reframe the challenge, define criteria for innovation, generate altogether new-to-the-world solutions. At this stage, there are no constraints, only possibilities.

All the radical breakthroughs of our lifetime that now seem so necessary started out as “crazy,” “impossible,” or at least “out of reach.” This is true whether they were breakthroughs in products, services, or systems. Think of the heart pacemaker (invented by Earl Bakken, inspired by Frankenstein), Federal Express (conceived by Frederick Smith as his “interesting but impossible” university thesis), or Starbucks (who would have ever imagined an essential $5 coffee?). The designers of these products, services, and businesses had the ability to imagine and, more important, envision new possibilities.

Even on a more modest level, one can appreciate the new product and marketing model envisioned through the Dove Real Beauty initiative, which connected the company’s expertise in skin care products with emerging consumer and social needs. At the level of the consumer, the need filled is an underlying desire for self-esteem—for women to feel beautiful, on a deep level, for “who they are.” At a more societal level, there has been mounting pressure to look like media models, which has triggered loss of esteem, as well as eating disorders, among young girls. By paying attention to these needs and issues, Dove successfully integrated social good into commercial success through its promotional support for the National Association for Self-Esteem (to combat eating disorders among young girls) and its Real Beauty campaign. The program reframed beauty by challenging emotionally damaging media stereotyping and boosting self-esteem among young girls through an integrated
To make the process even more fruitful, involve end users in feedback and concept enrichment early on to find out what works and what doesn’t, and move on to a better iteration without fussing over mediocre or incremental ideas. I have witnessed business teams create, role-play, and refine breakthrough, multidimensional ideas in two days with this process, spending $18 on supplies for low-resolution prototypes of breakthrough experiences versus $200K on fancy mock-ups of incremental product ideas in concept testing.

These experiences demonstrate that rapid-prototyping and iteration is an effective and efficient thinking and communication tool for enhancing and accelerating the strategic planning process. It’s a creative, energizing, and risk-free way for teams to explore big ideas, stimulate healthy dialogue around possible strategies, and quickest ideas with users as the basis for new value-creation strategies.

Most important, engaging all functions and disciplines on the business team in Gear Two brings a richer infusion of ideas into the process, fortifies team alignment, and creates traction in locking down and activating strategies later in the development process.

With well-defined, user-inspired solutions in hand, the team is positioned to ask and assess such questions as: “How would that better serve our users’ needs, and what would that mean for our business?”

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“What would we need to do in order to bring that to life, in terms of our capabilities and our organization’s activities?” This leads into the third gear of business design.

**Gear Three: Strategic business design.** The next step is to align broad concepts with future realities through strategy formulation and design of the business model itself. In this third gear, we explore and define what it would take to make the “big idea” commercially viable. We do this by...
articulating the strategies and capabilities required. What is most important is the identification and design of interrelated activities; this all adds up to a net commercial gain and competitive advantage for the enterprise.

As an example of one component of a broader solution, a company may decide that its customers need more personalized and responsive support. In order to deliver that in real time, it may conclude that a significant investment in database systems, access, and management is required. This will also affect organizational structure and operating procedures. Each of these components will cost money, save money, or generate stronger revenue and retention—all at the same time. Although at first, the investment may appear prohibitive, through iterative integration it can be designed to be a net gain for the enterprise (Figure 2).

Like the prototyping process in Gear Two, this phase entails prototyping the business model to integrate the parts and assess the evolved activity system as a whole. It is critical at this stage to identify which strategies will drive success, to prioritize which activities an organization must undertake to deliver those strategies, and to define the relationship of those parts strategically, operationally, and economically. Ultimately, this will determine what net impact the new model will have.

There are a number of tools that can be used to integrate business strategies and assess the sustainability of a business model. Visualization is as powerful in expressing strategy as it is in expressing product and service ideas; in this case, pictures are often more powerful than words and spreadsheets. One way to visualize the strategic model is to map the "activity system" required to bring a concept to life. This tool helps to identify the key strategic focus areas, capabilities, and tactical activities required to translate an idea into a strategy for competitive advantage. It’s articulating the strategies and capabilities required. What is most important is the identification and design of interrelated activities; this all adds up to a net commercial gain and competitive advantage for the enterprise.

To illustrate this point, we can imagine how the Apple activity system (post iPod) may look (Figure 3 on next page): a complex network of interrelated strategies and tactics that redefine the game rules of an industry while leveraging and extending Apple’s historical equities in product design, a proprietary platform and intuitive user interface, and a brand reputation for radical innovation and high-impact marketing. With the integration of iTunes as a content portal and a multitude of peripherals to complete a good complement to other, more-traditional financial analyses, such as mapping and dimensionalizing financial flows and conducting sensitivity analyses (on projected revenues, various capital/marketing investment levels, and payout).

Figure 2
the iPod experience. Apple has truly created a seamlessly integrated and culturally current digital experience. In the following diagram, the larger gray hubs represent the core strategies driving Apple’s success, including the equities and established capabilities from which iPod was built. Specific initiatives and supporting activities are indicated in the lighter circles.

What is critical in this particular case is how Apple advanced its competitive advantage by leveraging current equities and capabilities, and by creating new activities and capabilities both within the company (iTunes and iPod) and through partnerships (content alliances and peripherals integration). So while the parts of this activity system may not be entirely proprietary to Apple, the business model is “locked” by an interrelated set of activities and partnerships that are pre-emptive and sustainable, because they cannot be easily replicated by competitors within the period of time required for the enterprise to gain traction and pay out the investment.

The final step of strategic business design is integrating new concepts back into the current operating model, always asking: “What can we leverage in our current activity system? What tensions (barriers, issues, conflicts) must be resolved in our current activity system?” For each tension point, what are possible strategies and tactics for resolution? How can we lock up this system so that it is proprietary and sustainable to our enterprise, therefore justifying the investment required to support this breakthrough strategic plan? A series of iterations, much as with Gear Two, allow a new model to be defined.

Through this iterative process, prototyping (first on a conceptual solution, then on the strategic business model), and constant assessment of user value (based on the identified user needs and considerations), one can formulate a strategy for a new level of innovation and competitive advantage. By challenging the current model and exploring new ways to drive success, one can design new models that symbiotically create value for the market and the enterprise.

**Mindset matters**

With this as a methodological framework, the make-or-break ingredient is the mindset of individuals on the team. The following are some important emotional conditions under which design thinking can flourish.

**Mindfulness.** Business design is not something to be practiced on autopilot. It requires an astute awareness of the world and people around you. One needs to pay close attention to
what is visible and articulated, while sensing what is below the surface and unarticulated. In the creative process, everything is relevant.

Open-minded collaboration. Everyone on the team must not only be committed to working together, but also be receptive to new insights and ideas, whether they fit one's paradigm or not. Business designers feed off new insights and effectively build off the ideas of others, embracing both the friction and fusion that comes with intense collaboration. Egos must be left at the door.

Abductive thinking. In gathering new user insights and moving from what is known to the exploration of what could be, an important capability is abductive thinking. What is critical is to allow for the leap of inference in tackling new opportunities and designing new possibilities. A product example of this: Procter & Gamble's Swiffer—a product that revolutionized the market neither as a conventional household-cleaner line extension nor as a better version of the traditional mop. It signaled a leap into a new category of cleaning and became part of the cleaning vernacular ("I'll just Swiffer that before they arrive."). To take the leap toward game-changing solutions, it is vital to think beyond what is immediately observable and provable and embrace what could be possible as a radical new solution to unmet needs. Imagine is the key word here.

Permission to risk early failure. Great design does not come without risk-taking, trying new things, and the very strong possibility of failure. There are countless stories of where a really bad or crazy idea became the germ of a brilliant concept or strategy. How often have we heard someone shut down an idea by saying, "That's never been done before. What if it doesn't work? I may get fired." For those who need to mitigate risk, this method allows for consumer needs to legitimize far-out thinking and for prototyping to provide a no-risk way of exploring new possibilities. No matter how you practice it, great design takes personal courage.

Imperfection and iteration early in the process. This is not a clean and linear, paint-by-number process; it's as messy as finger-painting. What's important early in the process is to explore lots of possible solutions, not to perfect a prototype so that it becomes difficult to evolve it or even kill it. Iteration and constant change are necessary and good through every part of the process. That keeps the cost of failure low and the rewards of a possible breakthrough high.

Creative resolution of trade-offs and constraints. No great design is realized without the absolute unwillingness to give in to constraints and obstacles, and that is doubly true for business design. Roger Martin's book The Opposable Mind clearly defines the power of being able to embrace opposing models as the inspiration for creating new and better models. Those who find ways to create new models instead of making unacceptable tradeoffs find themselves ahead of the game; this is evidenced by model-changing successes like Southwest Airlines, FedEx, Four Seasons Hotels, and Apple's iPod, to name a few. That's where the design method can help in resolving model conflicts—keeping the user at the center, and prototyping various what-if strategic business models to ultimately deliver value to both the user and the enterprise. In many ways, business is the ultimate creative act.

Conclusion
Whenever the sector or the nature of the business, any organization can benefit from the practice of business design. It taps into team intelligence, creativity, and ambition to make a meaningful impact in the customer's life, both functionally and emotion-
ally. Embedding these methods and mindsets into strategic planning practices helps an organization to identify opportunities to capitalize on new and unmet needs, explore possibilities outside its current activity system, and set strategies to evolve the business model toward a new level of competitive advantage.

At its core, business design is about combining the essential three gears with a design mindset. A true design organization asks three questions of every opportunity: “What is the need driving this initiative?” “Have we pushed out on the possibilities to best serve that need?” “How can we embed that into our business model to create a sustainable advantage?” It is the power of all three gears that drive breakthrough strategies for enterprise success.

More important, a company that views design thinking not as a one-shot vaccination but rather as an ongoing fitness program for its organization will be better conditioned to stay ahead of the curve in a dynamic and increasingly competitive global marketplace. Far from static, the market demands that organizations be adaptive and agile. As the marketplace evolves, the needs of the user evolve, and thus the business model must evolve. The more an enterprise sees its business model or activity as a living organism rather than as a fixed model, the more that company will be poised to respond to ongoing opportunities to meet new needs and to create greater market and enterprise value.

Suggested Reading


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