CHANGING YOUR BUSINESS MODEL FOR CHANGING TIMES

Changing to take a WE-approach can be a tough challenge to a company's conventional way of thinking.

It can feel both risky and inconvenient to open up to ideas from the outside, linking your success to others', and engaging with all the other stakeholders that are part of creating the end-user's experience. Increasingly, however, going it alone is not adequate to create the sort of solutions and value that the market demands.

The trends described in the previous section: greater connectivity, increased complexity, empowerment and involvement of users, as well as an increased focus on services will force any company, including your own, towards more integrated and collaborative business models.

Most existing companies were established and optimized to operate under different conditions. Systems for development, production, marketing and distribution cannot change overnight – and no one wants to harm the current business.

To start changing, you need to identify specific areas, where experimentation can take place, yet still connect to the main operations of your company.

Moving towards integrated and collaborative business models

In the following nine sections, we offer a few words of advice as well as questions to consider, as you start rethinking your business model to fit the collaborative economy.

You will notice an emphasis on creating digital platforms. The platform is the main tool for collecting input, coordinating resources and demands, and typically the focal point for a company's interaction with partners, suppliers and customers. However, sharing and collaborating can certainly also take place without a digital platform to coordinate the interaction.
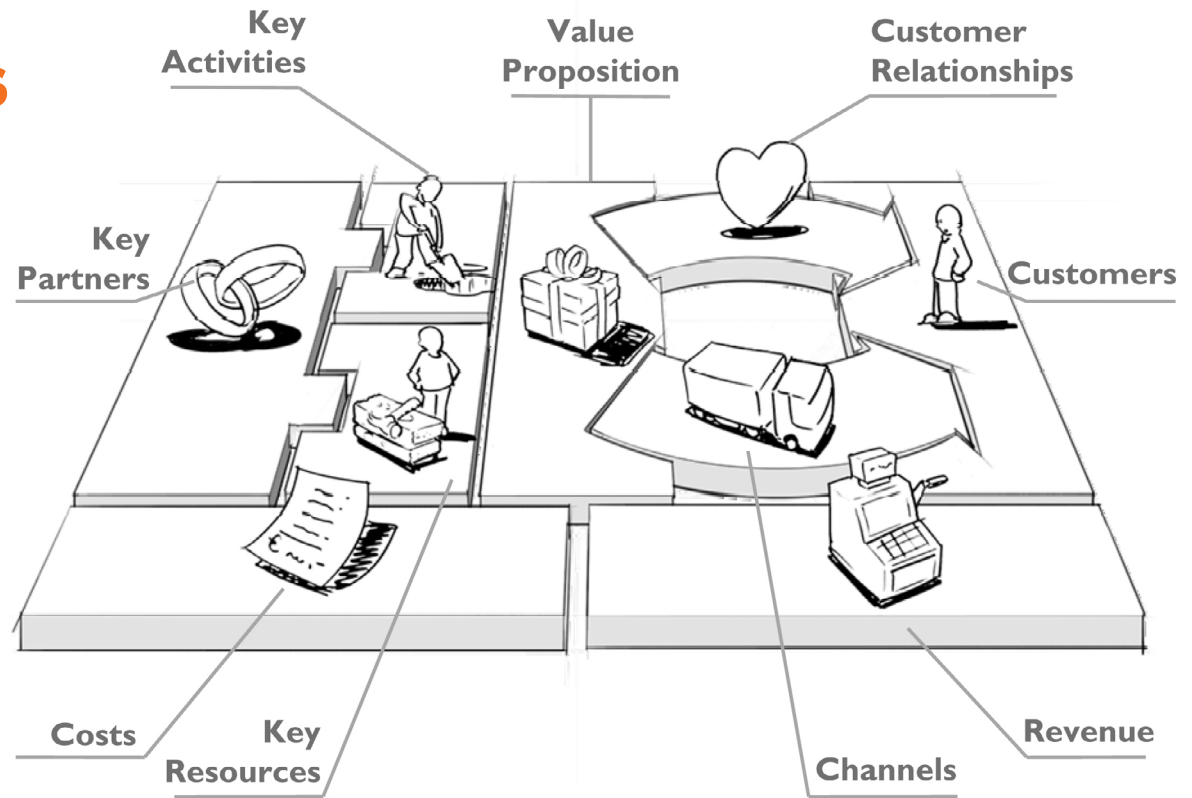
The material is not meant for reading in one stretch.

We suggest that you pick a particular element of the way your business operates – one of the nine elements in the model.

Using the section describing how that element of business is affected as we move towards a We-economy, you should then think through how your current setup might be improved in order to benefit from the trends.

THE BUSINESS MODEL CANVAS

Key Activities

Value Proposition

Customer Relationships

Key Partners

Customers

Costs

Key Resources

Channels

Revenue

drawings by JAM

This guide is loosely based on the "Business Model Canvas" method, developed by Osterwalder and Pigneur. Companies all over the world use the Business Model Canvas to systematically review their Business model. One of the strengths of the canvas model is that it is able to show and map how changes in one aspect of the business will affect other parts.

Although we can recommend studying the Business Model Canvas method in more detail, you don't need to know it in order to go through the considerations in this guide.
http://businessmodelgeneration.com

VALUE PROPOSITION

What problems does your product or service solve for your users?

What kind of value is delivered?

VALUE PROPOSITION

In the collaborative economy, companies create value by organizing processes of exchange and collaboration among their users. They enable their users to co-create the solutions they need. This is very different from the conventional business model of manufacturing products and selling them to customers.

Access not ownership
Coordination is at the heart of the collaborative economy. Through digital platforms, resources and needs can be matched with high precision. Users can easily find a particular resource – a device, a space or some particular knowledge or skill. Rather than buying and owning them permanently, users can access the resources when they need them. Conversely, suppliers with idle resources can find users for them. Sharing resources in this way raises their productivity, and lowers the costs to users.

A great deal of services that coordinate the sharing of resources has sprung up in recent years. Liquidspace.com brokers idle office space to users needing a temporary place to work. The Danish second-hand shop Resecond.com enable its members to swap clothes. When a user is tired of a particular dress, she can bring it to the shop and change it to another.

Users demand contextual solutions
The collaborative economy creates solutions based on large amounts of data. Resources, efforts and information from a wide range of stakeholders are combined into *instances*: solutions that are very precisely matched to a specific user's current context, drawing on the resources that are available, here and now. (see page 10)

Each new solution can be different. GoMore is a Danish ridesharing service that, among other things, enables drivers with spare seats to find passengers that will share the ride. The combination of drivers and passengers, and where the journey goes and how it can be combined with other means of transportation is rarely the same.

It's not just about money
Many of those contributing to the value creation are not doing so professionally. Through peer-to-peer exchanges and collaboration in networks and interest groups users help each other make the most of the products they use, and this creates value for both customers and producers. Products like Harley Davidson, Tesla and LEGO have strong user communities, and their activities are an important part of the value of the products.

If you want to engage your customers in adding value to your products or services you need to tap into what motivates and engages them. Very likely, it's not just money. In the sharing economy, the joy of helping others, socializing, or gaining status or reputation, are important reasons for participating and contributing. People, who rent out rooms and those who rent them, are certainly interested in making a good deal, but for many, the meeting and socializing between host and guests is an important added value.

In Kalundborg Symbiosis, companies send waste from their production to other companies, who can use it as raw materials. The participants are primarily motivated by saving money – but the environmental benefits are not to be overlooked from a branding perspective.

Keep in mind, though; if you attract and engage users by associating with a good social or environmental cause, customers will expect you to really demonstrate social impact.

VALUE PROPOSITION

Questions and considerations:

- **What is the unique value that you can offer?**

- **How can you offer access to a solution rather than ownership of a product?**

- **How can you add greater value to your product by adding a layer of services?**

- **Could someone else – including other companies or users – add a layer of services? Who – for instance other companies or users – could add a layer of service?**

What are the resources you need in order to deliver value?

KEY RESOURCES

Conventionally, companies would tend to keep resources in-house. They would build their own production facilities, hire employees, and guard their knowledge. In contrast, the strength of the collaborative approach is the ability of companies to access and combine external resources as they become needed.

Engage the smart people outside of your company
The best solutions to challenges facing your business are often found outside the company. By collaborating widely and taking an open approach to innovation, you can draw upon a wider range of ideas and skills, and adapt quickly to changes in the market by involving new relevant collaborators.

Using skills from outside the company to strengthen innovation is not necessarily new. Several of the largest IT companies contribute to develop open source software like Linux, Apache or Android. The companies can't own or control the software, but by developing it with a large community, the efforts of their employees are pooled with a much larger community of developers, which can lead to cheaper and better software.

Recently there has been a boom in platforms for brokering skills and labor such as Upwork, 99designs and TaskRabbit. These make it even easier to hire individuals with specific skills to solve a certain task when needed.

Collaborative platforms often mix input from both professionals and amateurs and thereby they can mobilize resources that would otherwise have remained unused. By involving and listening to users you can gain very specific insights into how your products are actually used, and use this knowledge to further strengthen your value proposition.

Scale your business without building material assets
Flexibility is a key characteristic of the business models in the collaborative economy. Flexibility offers a competitive advantage. If you do not need to own the assets and resources you deliver access to, your business can scale rapidly and expand globally by building new partnerships and mobilizing new resources to coordinate.

A well-known example: Airbnb offers more rooms than many of the world's largest hotel chains without owning a single building. It took only five years for Airbnb to reach that size, because, contrary to traditional hotel companies, Airbnb did not have to build, own or operate the rooms.

A Danish company utilizing the same strategy is GoMore, whose scalability is not defined by the number of cars they own – but by how many car owners, leasers and users they are able to attract and service.

The API is the secret sauce.
Most companies in the collaborative economy do business through an online platform. The so-called API , is the computer program that runs the platform. It's a combination of the interface that allows users to engage, the database with details of needs and resources, and the algorithm, which can process the information to coordinate and create solutions. These are the core assets of platform-based company – the virtual equivalent of an industrial company's production facility.

KEY RESOURCES

Questions and considerations:

- Do users have easy access to all the resources they need from your business?

- What would happen if you invested more in enabling interaction among your users and suppliers?

- Are there third party platforms that you should connect to?

- Does your business have the skills and resources to build and operate a platform?

KEY ACTIVITIES

*What activities need to take place
to make the business work?*

KEY ACTIVITIES

Build and maintain trust

Trust is crucial for collaboration, but trust is hard to establish in digital networks. Successful partnerships traditionally build on personal relations, where time and effort has been invested in getting to know and trust one another. In the new economy, the relationship is not just between you and your suppliers or distributors. Now, you have to mediate trust among a large number of suppliers, partners and users that may come from all over the world, and which are interacting in ever changing combinations.

As a platform owner, you can strengthen trust among users through ratings and reputation systems, and by curating the content and policing interactions. Platforms minimize risk and uncertainty for users by developing a clear framework around legal and copyright issues, and by offering insurance

Educate and empower the community

Online and – to some extent – offline community building is a major part of attracting and retaining users as well as supporting their mutual interaction. A strong community raises the quality of collaboration and thereby the quality of the knowledge and services that can be delivered.

A company can supply tools and train users to inspire the community of users to make better contributions and extend their activities on the platform. People renting out rooms on Airbnb, can find short and easy video instructions online to learn the basics of what it implies to be a good host. Likewise, if you are considering using the crowdfunding site Kickstarter you can find detailed instructions there on how to pitch an idea to the potential investors on the site.

Obviously, a digital platform should be fundamentally easy, attractive and effective to use. Elements, which cause friction and prevent interactions among users from taking place, must be removed systematically.

Not all members of a community may have the interest or the skills for contributing. You should identify the most active and valuable "super-users" and support them in contributing even more. If the community is digital this could be done by making them administrators of certain activities.

Get the interaction going

Collaborative services need critical mass: It takes a certain *density* of users to get interactions going. The more activity in the community, the greater value for all involved. Users will go where they find the largest selection; suppliers will focus where they find the greatest number of potential customers. Thus, it is crucial to establish a dominant position.

There is a great number of small platforms that seek to coordinate resources among peers but never reach the volume and density that could make the service reliable and fast enough.

To reach the critical density of users and suppliers, the purpose of the platform should be narrowly defined. You may not need a large number of users; what's more important is that you can attract the main share of all the interactions in a particular community or for a specific purpose.

Although Airbnb dominates exchanges of private rooms and homes worldwide, there are still smaller, specialty platforms catering for particular types of travellers. Misterbnb is specifically for gay travellers, while onefinestay.com brokers entire high-end houses.

KEY ACTIVITIES

Questions and considerations:

- **What part of your current activities can you let users or partners handle?**

- **What activities are essential to keep in-house? Why?**

- **Could you make solutions more comprehensive by involving a wider range of stakeholders that can support the user in his particular context? How?**

- **If you are operating a platform: How could you empower users by improving the interface – or by adding tools and instructions?**

KEY PARTNERS

*Who are your partners in value creation
– and how do they contribute?*

KEY PARTNERS

In the collaborative economy, a business is nothing on its own. Value is created when users interact with each other and with the products or services the company delivers. Users can contribute knowledge and ideas, or they can share equipment and skills with other users. In this way, the community of users and suppliers are the key partners and co-creators of the company's solutions - as well as being its customers.

Many, very diverse partners

Most companies tend to rely on a small circle of close and regular partners. But for collaborative businesses the list of partners will extend further along a *long tail*: There will often be a few partners or super-users contributing the majority of the resources, and many more collaborating occasionally with smaller contributions.

The range of partners can include people that are not professionals, and who in many cases are also end-users. On Wikipedia, more than 24 million persons have registered to make edits. However, less than 3500 super-users do the majority of the work.

LEGO Ideas receives suggestions for new sets from thousands of users, but only a handful of sets are developed into official products each year. Several hundred thousands of users contribute by sending comments and voting to support the designs they like.

Platforms are layered and woven together

The functionality of a platform often relies on the integration of data and services from other companies and platforms. In technical terms, companies can share *API's*. An example of this would be a car-sharing service, which integrates its own database of available cars with the timetables from a public transport company in order to offer users a solution, which combines car sharing with busses or trains.

When companies use each other's APIs it drives additional traffic and creates more data. Alliances around APIs can be crucial, and may range from simply embedding a link in a website to full-fledged interoperability.

Some large, general platforms aggregate input from many other platforms and companies, and this can make them very powerful. For a smaller company, it's crucial to be present and available on the platforms that its customers use the most – even if it means paying a part of their revenue in fees to the large platform. Many hotels are dissatisfied with the high fees charged by global platforms like Hotels.com or Expedia. However, *not* sharing information with the platforms would mean withdrawing from an important sales channel.

KEY PARTNERS

Questions and considerations:

- **How can you motivate and enable a larger group of potential partners to participate?**

- **Can you empower partners by opening a greater part of your processes to them?**

- **What partnerships could augment your service or increase your reach?**

CUSTOMER RELATIONSHIPS

*What type of relationship do you have
to customers and users?*

CUSTOMER RELATIONSHIPS

Relationships between a company and its customers used to be one-way and top-down. Consumers did not have much influence on the design of the product they bought. Product development and manufacturing was strictly the domain of the manufacturer. Now, customers expect to interact and have influence.

Your customers are experts

Often customers are quite willing to engage in contributing and co-creating the solutions they use. The amount of content that users create on Facebook or the number of designs submitted to LEGO Ideas show that users are willing to invest a lot of time and effort in interacting with the services they enjoy.

Often the real experts on a product are the people who actually use it. Input from customers can be a way for a company to improve products and match market needs more precisely – but it takes a deliberate investment of time and effort to engage in the dialogue.

Ongoing and personalized relationships

Conventionally, most transactions between seller and buyer would be short and impersonal, but now there is a rising interest from both companies and consumers in creating on-going interactions.

Since the interaction with and among customers is often digital, companies can track and gradually build up a personal profile of users. This allows companies to be more precise in coordinating solutions that fit the individual user's context.

Hold users accountable through ratings

Ratings are often an important part of the relationship. Users can rate a supplier – and in many cases, suppliers can also rate a user. Both parties are accountable to a much greater degree. Suppliers know that their online reputation determines how well they can attract new customers. Customers know that their reputation can determine what type of services they have access to.

Uber, the taxi service, lets passengers and drivers rate each other. Thereby, users are able to choose if they want a particular driver or not – and drivers can choose not to accept a ride for a passenger that has a bad reputation.

CUSTOMER RELATIONSHIPS

Questions and considerations:

- **Who are your users, and what do they need right now?**

- **How can you interact more frequently with users?**

- **What would motivate your suppliers and users to let you know more about them?**

- **What mechanisms in your organization would allow you to accept input from users?**

- **What mechanisms in your organization prevent you from accepting input from users?**

- **How can you benefit from engaging your users more actively?**

CHANNELS

Where do you interact with your customers?

CHANNELS

Increasingly, the interaction with customers is digital – whether it is for marketing, sales, shipping, feedback or support. Yet many of the strategic considerations when choosing what channels to use are similar to those that conventional producers face: Should you build your own network of sales persons, stores and distribution infrastructure – or will you rely on others? Should you operate your own digital platform, and how much of the interaction with users do you leave for others to handle?

Be where your customers are

Platforms have very strong monopoly tendencies. Suppliers and users alike want to be where the volume and flow of interaction is greatest. Once a platform has reached a critical mass by offering a large selection, it will attract more users, and this in turn will make more suppliers use the platform to connect to customers. This "network effect" is the reason why three, two, or even just a single global platform dominates most sectors.

General platforms can have great power and revenues, because they aggregate and coordinate a large part of all solutions in their particular sector. But every company cannot become a general platform for their industry. A company must carefully consider, if it has the strength to attempt to become the dominant platform – or if it will choose to be a supplier of components on a platform operated by another company.

Use a mix of channels

In reality, companies end up using a variety of solutions. API's can be mixed and layered. A company may offer its products on several external platforms, while simultaneously operating its own digital service, where it uses the input from other companies.

This is how the travel industry works. Airlines, like Ryanair or Easyjet will make their prices and schedules available for travel aggregators like Momondo or Expedia. Meanwhile, at their own website, the airlines will offer a number of services from third party suppliers, such as insurance, rental cars, hotels etc. The airline is both supplying components to the general platforms – and operating their own platform.

CHANNELS

Questions and considerations:

- **Which channels are you using to reach your customers?**

- **Where do you communicate directly with your users?**

- **Which channels do your customers prefer to use – are you present there?**

- **Do you have the resources and competencies to build and maintain your own platform?**

Who do you deliver value to?

CUSTOMER SEGMENTS

Conventionally, the roles in business are well defined: Producers develop, manufacture and sell – and consumers demand, buy and use. But in the WE-economy, old boundaries blur and roles overlap.

Users can be co-creators

In the collaborative economy end-users are more likely to participate in co-creating solutions and to contribute value. When users interact on a platform, they build value for that platform. Simply "liking" or rating a product adds a bit of value for other users, but in some cases the involvement of users goes far beyond that. End-users can contribute content, help solving problems or participate in designing the product they use.

LEGO receives thousands of suggestions for new sets through the LEGO Ideas site. Even more users participate by voting for the designs they like best. But only a few of the contributions from users get enough votes to make LEGO develop the ideas into "official" sets.

However these types of interaction don't necessarily have to take place on a digital platform. There are many examples of businesses inviting customers, partners and others to join in the creative process through face-to-face interactions.

Both suppliers and users are customers

In the collaborative economy, there is often a so-called "two-sided market". For a company, which coordinates and brokers exchanges, both the suppliers and users are its customers, because both segments pay to use the service.

Apple, for instance, lets producers of software, music and books sell to users through its App-store and ITunes service. But Apple is not a traditional reseller, which would buy products and sell them at a markup. Instead Apple presents the content to buyers and handles the billing for the downloading of content from thousands of suppliers. It charges a 30% fee for doing so.

User data is valuable for third parties

Collaborating and interacting with customers generates data about their behavior and preferences, and this data can be valuable for other companies – typically for advertising. Many digital platforms offer their service to users for free, and get most or all of the revenue from selling user data and targetted advertising. In that case, the buyer of user data and ads is the main customer segment, not the end user.

At the healthcare site Patientslikeme.com users can create a profile and enter detailed information about their disease, the treatment they receive and how well it works. They can then compare to other patients in a similar situation. The service is free for users; instead the site makes money by selling the data in anonymous form to pharmaceutical companies.

Societal and environmental benefits from sharing

Often, the interaction on platforms brings benefit to others beyond the users that are directly involved. Car-sharing and ride-sharing sites remove traffic congestion, and can potentially reduce fuel consumption and pollution, because fewer cars are needed. Similarly, sites for exchanging tools, skills or services among non-professionals can build greater social cohesion and trust in a neighborhood.

The municipality of Seoul, South Korea's capitol city is supporting a large number of projects to create a "sharing city". The politicians realize that they cannot solve the many problems of a rapidly expanding city without engaging citizens and companies in creating value. Likewise, both the Danish state and the municipality of Kalundborg are now investing to extend the Kalundborg Symbiosis model for exchanging industrial waste among companies.

CUSTOMER SEGMENTS

Questions and considerations:

- **Who benefits from your products and services?**

- **Are there additional customer segments that you could address?**

- **Could some among your suppliers and users benefit from interacting with each other? How?**

- **How could you motivate customers to contribute and co-create solutions?**

COST STRUCTURE

What expenses are involved in running the business?
What investments are required?

COST STRUCTURE

The value of a service depends on whether users can quickly and reliably find others to collaborate and exchange resources with. It is crucial to build a critical mass of users in a short time – and this requires a relatively high up front investment in establishing a well working platform and mobilizing a community of users. Conventional manufacturers can start out selling a small batch of a product and gradually build up volume if there is sufficient demand. In contrast, platforms need a high level of activity from the start.

Reach critical mass
To get the interaction going requires a certain "density" of users and suppliers and resources. It's a chicken-or-egg dilemma: you must have enough customers to attract suppliers – or mobilize enough suppliers to attract customers.

This was also the case for the Danish car sharing company GoMore. Building critical mass in order to ensure enough rides and cars to share took the investment of 1,5 year's worth of man hours.

Scale cheaply
Once the platform has been established it is relatively cheap to scale the business. Digital platforms are light on physical assets; they typically don't own or produce the resources that they coordinate. A broker doesn't need to build factories or hire employees to grow; it just needs to attract more suppliers and users. Because the systems for collecting information and coordinating resources are automatic, the marginal cost of adding customers is very low.

An extreme case is the mapping service Waze, which shows drivers real time info on traffic conditions, road constructions, accidents, gasoline prices etc. It is based on input from users – the more input it receives, the more detailed and useful it becomes. When Waze was acquired by Google in 2013 for $1.1 billion it had 50 million users in 13 countries – but only 100 employees.

Keep the community healthy
The main task for a collaborative business is to keep the interaction between suppliers and users going. The attention and interest of users needs to be maintained, activities must be policed, and trust and reliability needs to be kept high. Quality can be improved by tweaking the user interface, by educating suppliers and users, and by providing tools for better co-creation. Creating events or competitions can strengthen the sense of community.

Many web services have dedicated community managers on staff, whose job is to strengthen the connections among users and between users and the company. Lyft and Kickstarter are examples of companies with strong community management efforts.

Don't push it!
Users will only engage in sharing and participation if they feel rewarded. Their motivation is not only monetary – many enjoy helping others, interacting socially, or gaining status in a community of users. Services need a certain restraint and to realize that they cannot just extract value without giving back. Too many intrusive ads, too much surveillance, too eager attempts to appropriate the content – and users will simply go elsewhere.

Facebook has repeatedly gotten into trouble and have had to backtrack, when it tried to change the terms of use, in order to be able to sell more of users' data.

COST STRUCTURE

Questions and considerations:

- **Why should users engage and contribute to**

- **What part of your business could you let suppliers or users create?**

- **What new investments would you need to build a community of users?**

REVENUE STREAMS AND VALUE CREATION

Where does the money come from?
What value, besides money, do you generate?

REVENUE STREAMS AND VALUE CREATION

Revenue streams change in the collaborative economy. Money is not just made by selling products, but also by offering services that give users access to resources. Furthermore, when you enable a large number of suppliers and users to exchange resources and co-create, it can lead to other values besides money.

Charge for service and subscriptions

A company that sells a car gets the full sales price at once. If the company sells *access* to use the car for small periods of time, the revenue will come in smaller parts over a longer period – and it may be part of a broader service, including insurance, gasoline and maintenance. Some of the payment can be a membership or subscription charge, and some may be based on actual use. An example of this revenue model is BMW, the car-manufacturer, which offers car sharing in many cities. Customers pay pr. minute of use.

Collect a fee from transactions

The business model of platforms is to enable a number of users and suppliers to exchange resources and co-create value among each other. If there is money involved in the exchange, the platform can charge a fee for brokering.

Airbnb enables that a traveller can find and rent a room in a private home. The traveller deposits the payment with Airbnb, and the host receives the money after the stay. This removes any uncertainty or awkward situations around the payment – and allows Airbnb to keep a fee.

Likewise, GoMore, a Danish car sharing platform, charges 10% of the payment from each shared car seat it brokers.

Build brand and customer loyalty

Engaging users and customers can be an effective way to strengthen a company's brand and credibility. Computer and software companies often rely on extensive communities of users that help each other with instructions and problem solving. The interaction and exchange of experiences in user forums add to the value of the product and enables more people to use the product succesfully – without raising the cost for the manufacturer.

Involving communities and opening up for collaboration with users also sends a signal that a company cares about its customers and is willing to learn. Even companies with traditional production and sales models can experiment with new ways of interacting with customers and partners in selected areas of their business.

Sell the data

Activity on a platform can generate massive amounts or data, which can be sold to advertisers or used by the host to improve understanding of what users need and want.

The travel site Tripadvisor collects ratings and review of hotels from its users. This increases the quality of the information on the site, and enables Tripadvisor to target its advertising with greater precision.

REVENUE STREAMS AND VALUE CREATION

Questions and considerations:

• **How could you sell your product as a service or for part-time use?**

• **How could you charge a small fee for enabling interaction among your customers?**

• **Which external players could benefit from the interaction among your users?**

• **How can you increase the chances that the activity and knowledge shared through your platformtranslates into increased sales of your product or service?**