

Business Model Diamond.

Henrik Hyldgaard.

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About Henrik Hyldgaard

Not long ago I had the opportunity to talk to the CEO of the LEGO Group, Jørgen Vig Knudstorp. It probably won't be an exaggeration to say that he is one of the world's most successful and sought after business leaders of today. So for me it was a good chance to explore the management and the mentality that led the LEGO Group from a deep crisis in early 2003 to the summit of international business now in 2015.

Behind the polite and relaxed façade it was obvious that the LEGO Group's top executive was processing a series of crucial business problems.

I had the clear impression that Jørgen Vig Knudstorp was constantly searching for new opportunities for improvement and development, not only the obvious ones, but also the opportunities that make you read between the financial lines and are not halted by seemingly good numbers and excellent results.

Knudstorp exuded a kind of offensive curiosity and consistent search for the truth, which does indeed appear to be an important element contributing to the successful transformation of the LEGO Group, at least when one reads the book "**Brick by Brick**", which in a skillful fashion tells the story of exactly that process¹.

Notes

- ¹ The book "**Brick by Brick**" provides a fascinating insight into the journey of the LEGO Group from success to failure and then the transformation that subsequently reestablished the success. Here is the link to the book and its author:
<http://www.robertsoninnovation.com/brick-by-brick/>
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It is the same proactive approach you need to cultivate when guiding your company in markets of constant change. The only thing you can be certain of in the future is that your company's competition and market condition will be significantly different than it is today².

The competitors will be different, and the customers' needs and purchasing behavior will also be different than they are today.

Hence you might as well resign yourself to the fact that your company must be decidedly different than it currently is in order to retain its competitiveness and success in the future³!

The polite, but relevant questions I want to pose to you are:

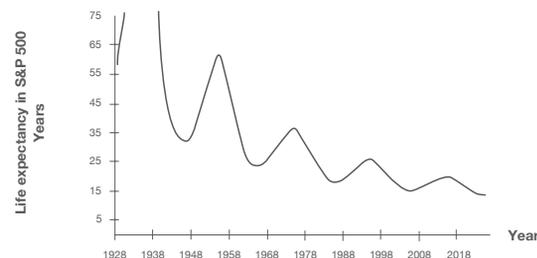
- › How much time do you spend contemplating and exploring what radical changes your company needs to make in the future?
 - › Are you offensively curious about the future for your company or defensively oriented towards defending and retaining all that has given your company its current big success?
 - › Have you established the right leadership, culture and structure and also the right systems, processes and tools to handle the many fundamental changes that your company is bound to face?
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- › Is your reaction sufficiently offensive towards technologies and trends that change with lightning speed?
- › Have you created an organization that can think independently and deliver suggestions for how you as a company to utilize the changes optimally?
- › In other words, have you understood and accepted that your task and your working conditions as a top executive have changed fundamentally?

If you as a leader are unprepared to handle the future, then your company will definitely be unprepared as well!

Notes

- ² Here is the book that documents that we have only just seen the beginning of the market turbulence. The wonderfully predictable times with stable markets will not return:
<http://www.amazon.com/No-Ordinary-Disruption-Global-Breaking/dp/1610395794>
- ³ It is not only the stories about Nokia, Blockbuster and Polaroid, but also the statistics that document that the average life of a company is falling drastically.



“Survival and performance in the Era of Discontinuity”, McKinsey Report

In her book *The End of Competitive Advantage* Rita McGrath debunks the notion of “**Competitive Advantage.**” She introduces the concept of “**Transient Competitive Advantage**” as an expression of the fact that we have to learn to surf on one transient wave of competitive advantages to the next. You will find the book and the author here:
<http://ritamcgrath.com>

The dangerous complacency.



In 2013 I co-authored the book **“Sult i Paradis, Opgøret Med Mageligheden”** (Hunger in Paradise). The theme of the book is simply that success does not automatically beget more success. The reason for this is both basic and obvious when you study the largest companies’ fall from grace. Successful business leaders naturally and almost unavoidably become very complacent⁴.

Complacency can be defined as a sense of feeling safe, completely unaware of the large potential dangers lurking right around the corner, dangers that in the new millennium appear in the form of new products and companies such as iPhone, Facebook, Netflix and Ryan Air⁵.

Complacency is not synonymous with laziness among employees.

Notes

⁴ If you have not read **“Sult i Paradis, Opgøret med Mageligheden”** (Hunger in Paradise) it is available here: <https://www.saxo.com/dk/soeg/boeger?query=Sult%20i%20Paradis>

⁵ This quote more than any other demonstrates complacency: **“From the point of view of competition the iPhone is nothing but a niche product,”** April 17, 2008 NOKIA CEO, Olli-Pekka Kallasvuo

Complacency is much more an expression of management's ignorance and naivety towards the transformation that the company must necessarily undergo in markets in constant motion.

Figure 1. The Matrix of Complacency

	<u>Overconfident</u>	<u>Fear-driven</u>
<u>Ignorant</u>	<p>"I am a successful business leader, so I can create success for my company in virtually all areas of business, irrespective of the market's current perception of our brand and the company's lack of insight into the business area."</p>	<p>"I retain my perception about the company's achievements, competitiveness and prospects as being quite satisfactory, irrespective of key numbers and market signals which tell a completely different story."</p>
<u>Naive</u>	<p>"I am expanding the company's activities to the business areas which I believe are the most attractive, and where I personally think it would be exciting to operate, in spite of the company's lack of relevance and competence in that business area."</p>	<p>"I keep the company firmly tied to everything that has created its original success out of fear of losing this success, in spite of the fact that markets in motion logically require that companies be in motion as well."</p>

It makes no difference whether the successful business leader has not been able to transform the company because of fear-driven conservatism or a hyperbolic belief in own abilities and lack of respect for the company's limitations.

In both cases the company has not succeeded in building a solid and profitable bridge between the company of today and the competition and market condition of the future.

The very serious problems that the LEGO Group was facing 10-15 years ago are actually an example of both types of complacency⁶.

The Turbulence

In the 1990s the market for toys, like so many other markets, was seriously hit by the digital wave with MP3 players and video games emerging as children's new favorites.

Fear-driven

The consequence was noticeable. The LEGO Group's revenue stagnated from 1994-1998, despite a tripling of the introduction of new products in the same period. But it was primarily "more of the same" that was launched. The LEGO Group's product development had become too static, conservative and inward looking and also a terribly high additional expense. For the first time the LEGO Group registered an operating loss and had to lay off more than 1000 employees.

Overconfident

Towards the end of 1998 a new management with a clear agenda took office at the LEGO Group. The company had to be brought up-to-date and the revenue had to double by 2005. The target was to become "the world's strongest brand among families with children". LEGO developed an innovation culture that was out of step with the company's core values. It can best be illustrated by the statement by the person who was then responsible for the brand and product development, "The LEGO brick is our biggest limitation." The result was a series of magnificent but unsuccessful product launches that ended up bringing the LEGO Group to the brink of collapse in 2003.

⁶ The description is my personal summary based on reading the book "Brick by Brick". You can find the book and it's author here: <http://www.robertsoninnovation.com/brick-by-brick/>

Your own potential complacency as a top executive is the most serious threat to your company when completely new providers change the customers' demand and diminish your company's competitiveness.

The risk of descending from success to failure is most pronounced when your company is in reality standing still while the competitors and the customers are in motion, or when you move the company's activities too far away from its true values.⁷

Notes

⁷ Here is Steve Job's explanation of why companies go from success to failure:

"The company does a great job, innovates and becomes a monopoly or close to it in some field, and then the quality of the product becomes less important. The company starts valuing the great salesman, because they're the ones who can move the needle on revenues." So salesmen are put in charge, and product engineers and designers feel demoted: Their efforts are no longer at the white-hot center of the company's daily life. They "turn off." IBM [IBM] and Xerox [XRX], Jobs said, faltered in precisely this way. The salesmen who led the companies were smart and eloquent, but "they didn't know anything about the product." In the end this can doom a great company, because what consumers want are good products.

**Nothing
hurts like the
truth.**



Since the publication of “**Sult i Paradis, Opgøret Med Mageligheden**” (Hunger in Paradise) I have worked exclusively with combating complacency in successful companies.

The work has consisted of two basic phases:

1. Exploring the truth about the company’s achievements and competitiveness
2. Challenge and innovation of the company’s business model

The cure against complacency starts with an analysis of the company’s achievements, culture, competencies and, not least, its position on the market.

I am looking for the truth about the company’s present and future competitiveness, both internally and externally in the company. Since I am independent of the company’s collective tunnel vision and self-affirmation the truth is not hard to find at all.

In reality it is only a matter of opening your eyes and search for the truth between the lines in the financial statements and the many public acknowledgements.

The truth about the state of the company and its competitiveness repeatedly turns out to be far removed from the perception of the company’s management and is therefore usually very unpopular.

It is incredibly difficult to accept the truth about the company’s actual competitive situation, when good financial results, enormous success

and high status offer a more comfortable and “factual” story from the past.⁸

How about you. Are you in search of the truth? Or does it present too much turmoil? Too many complicated conversations and decisions? And perhaps also some blemishes on you⁹?

First of all, the gap between the truth and the perception of the company’s achievements and competitiveness has to be closed.

Realization of the truth about the company’s actual strategic situation must ensure the motivation and also the foundation of the subsequent challenge and development of the company’s business model.

The journey towards the competitiveness, growth and profit of the future simply starts with identifying the company’s true starting point.

The bridge that will ensure the transformation of the company to the future competition and market condition must be built on a solid grasp of present realities.

Notes

⁸ Here are three statements by Blockbuster relatively close to the company’s bankruptcy that say everything about how difficult it is for successful managers to embrace the truth about the company’s achievements and competitive situation.

2008: CEO Jim Keyes also expresses doubt about Netflix in an interview: **“I’ve been frankly confused by this fascination that everybody has with Netflix...Netflix doesn’t really have or do anything that we can’t or don’t already do ourselves.”**

May 2010: In an interview with Fast Company, Jim Keyes is asked whether Blockbuster’s financial troubles were due in part to Netflix’s success. **“No, I don’t know where that comes from,” he says. Keyes denies his company is going bankrupt.**

August 2010: Though ailing from a debt of \$900 million, Blockbuster’s head of digital strategy explains, **“We’re strategically better positioned than almost anybody out there. Never in my wildest dreams would I have aimed this high.”**

⁹ Karl Popper: **“True Ignorance is not the absence of knowledge, but the refusal to require it.”**

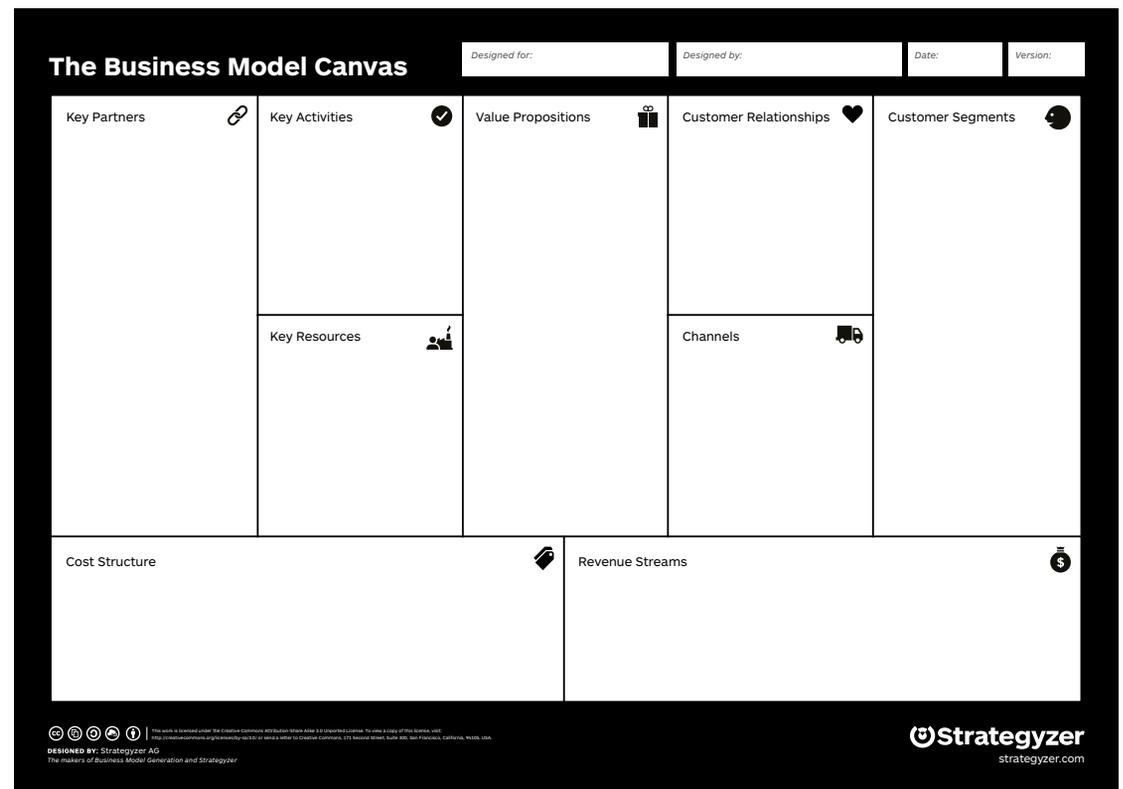
**A blank
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not an artist
make.**



The journey towards the future competitiveness continues to challenge the company's basic business model. Here I present the "Business Model Canvas" developed by Alexander Osterwalder, in my opinion an excellent working tool.

"Business Model Canvas" creates an overview of the vital components of the company's basic model for creating and capitalizing customer value¹⁰.

Figure 2. "Business Model Canvas"



Notes

¹⁰ If you are unfamiliar with Business Model Canvas, you can read more here: <https://strategyzer.com>

It's my experience, however, that the challenge of the company's current business model is often far too conservative and generic.

The changes are limited, too weak and too inconsequential to ensure the future competitiveness.

Even though a leader group consciously starts challenging and developing the company's business model, my experience is that the thinking is usually too linear and incremental.

The future image of the company will look too much like the image of the past. And the few genuine changes resemble those of other companies' great successes far too much.

A blank canvas is by no means a guarantee for being able to design the competitive business models of the future.

For the defensively oriented business leader the blank canvas may easily act as a flypaper for all the concrete elements we already know are working.

Most often everything that feels like a safe solution is what the fear-driven business leader chooses to include in the business model of the future.

Everything that has been tested and validated by current companies in the current markets with the current customer needs.

And thus nothing significantly different is being offered here and now.

Nothing with the potential for creating more value for the customers.

Nothing that can surprise the competitors and set the agenda for the markets of the future.

Nothing that can really secure the company's competitiveness in the future.

The definition of the business model of the future not only becomes similar to the previous one, but also too similar to what others are doing.

In my opinion the differentiation is often overlooked in the work of challenging and developing the company's future business model¹¹.

A strong "value proposition" – the focal point of "Business Model Canvas" – is not only a matter of creating value for the customers, but also of creating more value than the competitors are able to create for the customers.

The question of what the company actually plans to do markedly different from its competitors in the future is not addressed in the development process.

And hence the journey towards securing the future competitiveness has really not started at all.

The diamond-shaped business model.



Obviously it is not my intention in any way to devalue “Business Model Canvas” as an excellent strategic tool.

Alexander Osterwalder’s books Business Model Generation and Value Proposition Design are outstanding and also very specific that the business models of the future should not be about doing more of the same or more of what others do.

But that does not change the fact that “Business Model Canvas” in itself only indicates a pressure to create a coherent definition between the creation and the capitalization of the customer value.

I have therefore decided to start the challenge of successful companies’ business models somewhere completely different.

Instead of immediately swinging the brush over the blank and defenseless canvas I started inquiring about the company’s unique purpose, identity, culture and leadership.

It is an exercise that puts top priority on the company’s differentiation as a catalyst for designing the competitive business model of the future.

Here are the questions you should ask yourselves on the road to challenging the company's basic business model”

Unique Identity

- › Who do we want to be as a company?
- › What product category do we want to deal with?
- › What actor do we want to be in that category?
- › What market position do we want to establish?
- › What personality do we want to develop?

Unique Purpose

- › Why are we here as a company?
- › What vision will we try to fulfill?
- › What is our contribution to society?
- › What difference will we make in the market?
- › What impact we will have on our employees?

Unique Leadership

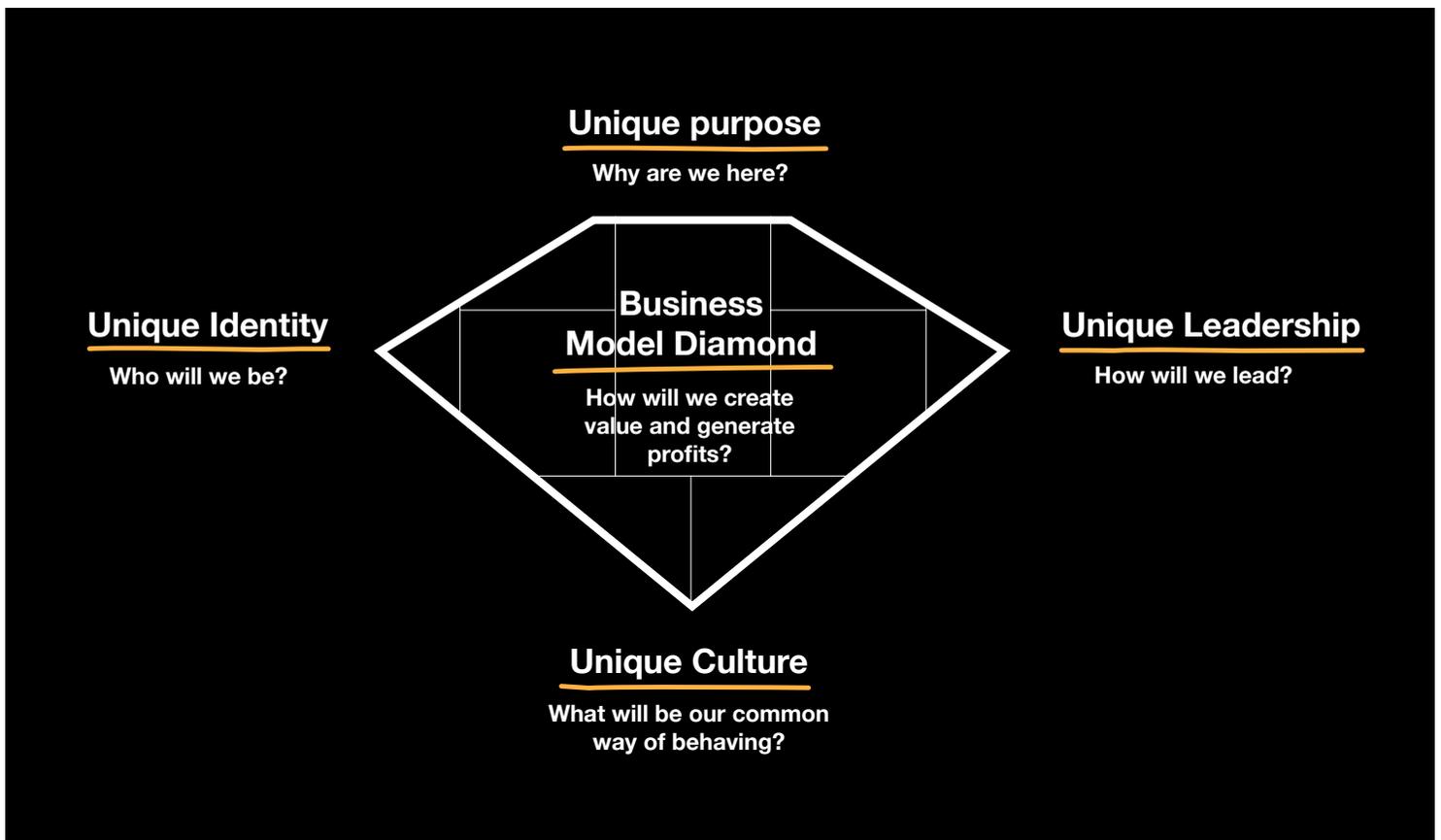
- › How will we lead the company towards our objectives?
- › How will we lead ourselves as leaders?
- › How will we lead our employees?
- › How will we lead the strategy?
- › How will we lead the necessary changes?

Unique Culture

- › What should be the characteristics of our common way of working?
 - › What mission will we follow?
 - › What should our common values be?
 - › What are our common attitudes?
 - › What is our common mindset?
-

It is my experience that the strong initial focus on making the company unique inspires and presses the company's management to relate in a more visionary and competitively oriented fashion to the further development of the business model.

Figure 3. Business Model Diamond



It is no longer possible just to initiate a strong, solid and coherent development of the company's business model. The question of what should be done completely different than the competitors in the future constantly hangs in the air in a way that binds both you and your management group.

For various reasons the diamond shape can create business models with high power of acceleration and also with effective navigation capability in the turbulent business environment:

1. Differentiation is the very basis for creating more value for the customers than the competitors, and also the prerequisite for garnering just a little bit of attention in an over-communicated world.
2. The diamond shape is essential to the optimal capitalization of customer value. The definition of the unique purpose and the leadership and also the unique identity and culture surrounding the business model is of course the basis for an effective execution in any company.
3. Differentiation of the business model is also a manifestation of a high degree of individual and independent thinking on the part of management.

The differentiation thus feeds an independent mindset which enables the company to navigate constructively in relation to trends and movements among competitors; when the company is confident in its own identity, why and how business is conducted, and know how to fundamentally separate themselves from the competition. Then it becomes much easier to relate offensively to extraneous changes.

The company will be able to surf on the waves of change rather than watch passively and risk being knocked down by the violent force of change¹².

**This is
how you cut
a perfect
diamond.**



When working to define the competitive business model of the future it is important not only to make the company embrace the truth about its actual competitive position.

It is just as important to have the company understand its full potential for creating customer value.

You have to accept that the current version of your company is only the starting point for the creation of the more important, value creating and profitable company of the future.

Companies expose themselves to the greatest risk in the turbulent business environment when they believe that their current successful products, principles and processes represent long-lasting competitive advantages. Products, principles and processes always become worthless as society and the market develops¹³.

Notes

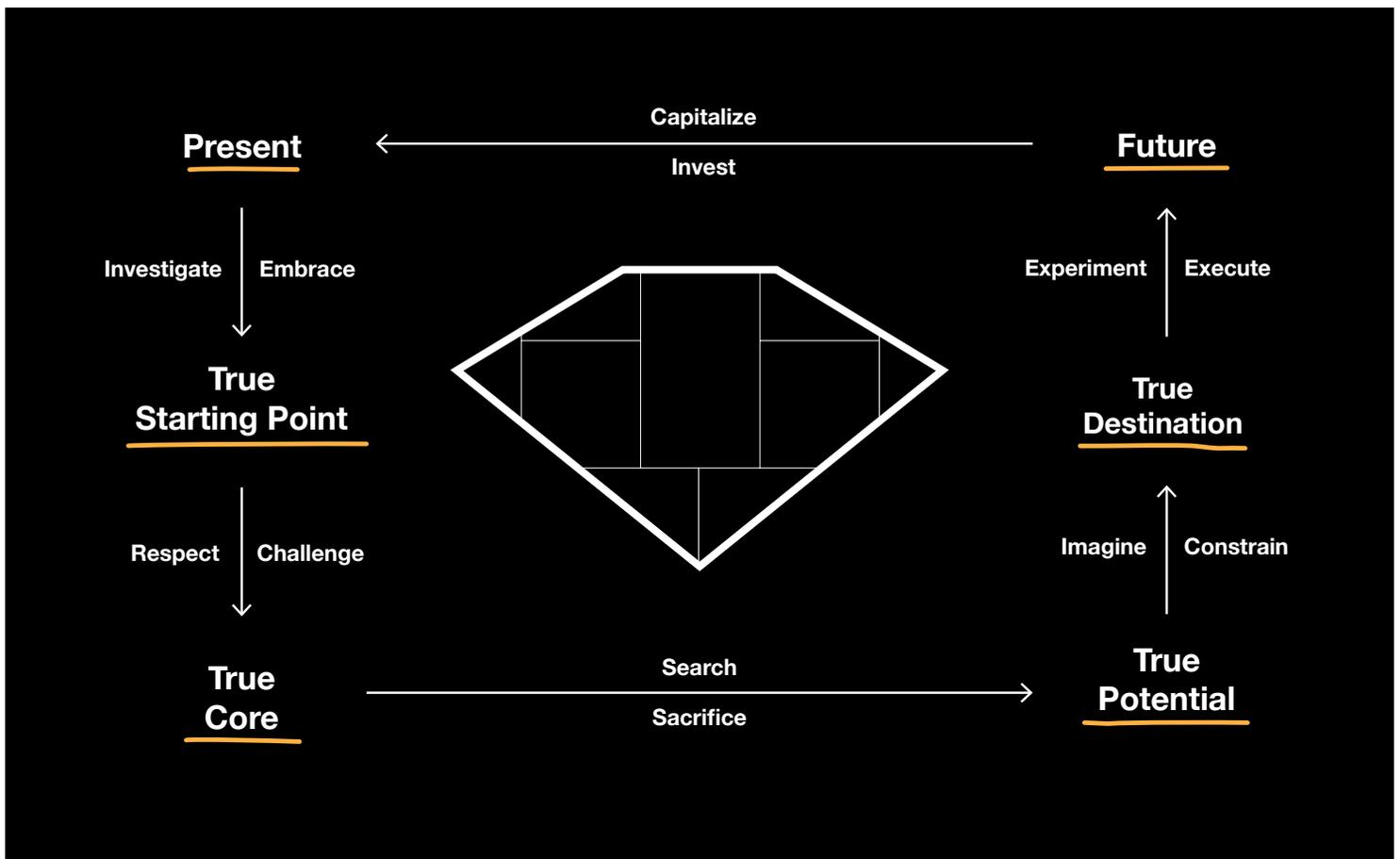
¹³ Read the excellent article from Fast Company titled “**Death To Core Competency**”: <http://www.fastcompany.com/3005850/core-competency-dead-lessons-nike-apple-netflix>

Read about the concept “**Creative Destruction**”:

Creative destruction is an economics concept introduced in 1942 by the economist Joseph Schumpeter to describe that economic growth does not only mean growth of new jobs but also that a number of existing jobs will be made redundant and will disappear. The emergence of the automobile industry, for example, meant that horse drawn carriages disappeared. A more contemporary example is that the proliferation of PCs resulted in great losses of market shares for manufacturers of main frame equipment.

You should view your company and its current business model as an uncut precious stone with great potential to create even more customer value and profit.

Figure 4. This is how you cut the perfect diamond



The hand that cuts the diamond-shaped business model is guided by a strong sense of the true starting point, the core, the potential and the destination of the company.

True Starting Point

- › You must not at any time let go of your offensive curiosity and consistent search for the truth.
- › You must study the realities surrounding your company and always embrace the truth; then you will reach the company's true point of departure.

True Core

- › You must dig deep and much more principled into the company in order to find its innersource for creating customer value.
- › You must define the company's ability to secure differentiation and create customer value on the most universal, principled and timeless level.
- › You must have enhanced your understanding of this far beyond the company's current products, which basically are only an expression of the current interpretation and execution of the company's true core values.

True Potential

- › You must be able to put into perspective and scale the company's inner source for creating customer value for the sake of the customers, society and the employee
 - › Based on your understanding of the company's true core and movements in the market you must have the ability to sense the company's many opportunities and true potential.
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True Destination

- › This insight into the company's true point of departure, its core and its potential will be the best opportunity for you to imagine a distinctly different version of your company
- › A company that includes itself as well as its customers in a visionary balance between the present and the future.
- › You are starting to gain control of the future direction and destination, and now you can see the outline of the perfect form of your company's "Business Model Diamond".

In 2003 Jørgen Vig Knudstorp started out by relating the situation about the company's true starting point. Christmas sales had failed dramatically at the end of 2002, and dealers were stuck with piles of unsold merchandize. The situation for the LEGO Group was much more serious than anticipated, and prospects for the future were even worse. Knudstorp told the company's then senior management that they were standing on a burning platform.

The time immediately following Knudstorp's takeover of the day-to-day management in early 2004 was a period of combating complacency and stabilizing the company. In the book "**Brick by Brick**" the LEGO Group's top executive is quoted as declaring, "We wanted to break the back of the culture."

Then followed a lengthy process trying to understand the cause of the LEGO Group's problems and searching for the company's true core. It turned out that it wasn't the LEGO brick and its fundamental character that was the problem.

Rather the problem was a lack of understanding and focus on how to further develop and re-interpret the use of the LEGO (Leg Godt [play well]) experience in new, modern and contemporary products e.g. Bionicle, LEGO Games, and The LEGO Movie.

The LEGO Group's story is an excellent example of the successful transformation of the company needing the ability to challenge the present while at the same time respecting its true core and thus also its past¹⁴.

You need to make the truth the focal point when ensuring the transformation of the company. The bridge between the current version of the company and the competition and market condition of the future must have a solid foundation on both sides of the changes.

You need to restore the balance between the effective execution and capitalization of the present and the creative experiments and investments in your company.

I believe strongly that this balance is the most important first step towards creating the perfect form for your "Business Model Diamond" and that it will release the company's true potential.



For more than 20 years, Henrik Hyldgaard has been working as strategic advisor and business developer for Danish companies like Bestseller, Jack & Jones, ONLY, Dinesen Floors, Ball Group, Spar Nord, Bones, IT Relation, KK Wind Solutions, and ATEA.

Recently Henrik has co-authored the bestselling book **“Sult i Paradis”** (Hunger in Paradise) with Rasmus Ankersen. He works with some of Denmark’s most successful companies – first fighting their complacency, and then accelerating their business through uniqueness.

Henrik has also written the book **“Hotel Creativity – check in and change the destiny of your company”**, which focuses on ways of making creativity a crucial method in the pursuit of profit. As a follow up to his book he has developed the world’s first **“EMBA in Business Creativity”** in a joint venture with Business Institute in Aalborg. This new education makes creativity the focal area of competency for the top business leaders of the future.