

## **ORGANIZATIONAL ASPECTS OF BUSINESS MODEL INNOVATION: THE CASE OF THE EUROPEAN POSTAL INDUSTRY**

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### **ABSTRACT**

Incumbent organizations are recurrently challenged to innovate their business model to respond to a changing business landscape. Using the case of the European postal industry, our research analyzed the organizational (re)design issues underlying the business model innovation process—distinguishing business model *exploration* from *exploitation*—to unveil four key organizational themes.

### **INTRODUCTION**

Business model innovation is an emergent area of research, which is receiving a growing amount of scholarly attention. Yet, the seminal question of *how to organize for business model innovation* is not well understood. More specifically, which organizational (re)design issues arise when incumbent firms attempt to (re)invent their business model? In this paper, we explore these questions in the context of the European postal industry.

The business model—the logic by which firms create and capture value (Zott, Amit, & Massa, 2011)—includes the design of organizational structures to enact a commercial opportunity (George & Bock, 2011). In turn, business model innovation implies new ways to organize business (Casadesus-Masanell & Zhu, 2013) and thus necessitates organizational change (Santos, Spector, & van der Heyden, 2009).

The literature on the organizational aspects associated to business model innovation has identified the specific role of barriers, as well as that of enablers, to business model innovation (e.g., Spector, 2013, Amit & Zott, 2001; Christensen, 1997). Likewise, the existence of a dominant logic and the role that organizational learning plays in appreciating the business model have been documented (e.g., Chesbrough & Rosenbloom, 2002; Sosna et al., 2010).

Our research contributes with new insights on the organizational aspects associated with the business model innovation process, which has been so far little studied. From the organizational issues in addressing the extant dominant logic to enable the firm to explore new possibilities, to the organizational issues of (re)structuring and establishing new capabilities needed to exploit viable new possibilities (business model exploration and exploitation).

## DATA COLLECTION AND ANALYSIS

To understand the organizational issues surrounding business model innovation, we adopted a qualitative case study approach with multiple postal operators as embedded cases (Eisenhardt, 1989; Eisenhardt & Graebner, 2007; Yin, 2003). We selected the Danish, Portuguese and Swiss postal operators, which have all made efforts to create new business models over the past decade or so, similarly to many other national postal operators. Having three embedded cases enabled a form of triangulation within the larger case.

The main empirical base consists of a set of semi-structured interviews, which we conducted during the summer of 2012, with the main managers responsible for the business units involved in the business model innovation efforts in each of the operators. Based on these, we constructed a resource-activity-revenue value structure comparison from examples of business model innovations. These results should increase the external validity of our study (Yin, 2003).

In this inductive analysis, we worked iteratively to identify themes of findings—identified key organizational issues—from the cases, comparing each finding across cases as an analytic technique to derive meaning (Locke, 2001). Further triangulation was achieved through the use of written sources of secondary data, such as industry and yearly reports. Our analysis builds on the general principles of grounded theory, constructing categories of findings by developing categories of information (open coding), interconnecting them (selective coding), and building a story that connects them (axial coding) (Dougherty, 2002; Strauss & Corbin, 1990).

### BUSINESS MODEL INNOVATION IN THE EUROPEAN POSTAL INDUSTRY

The European postal industry faced a rapid transformation led by the digital substitution of letter mail and the gradual privatization and liberalization of the industry. Postal operators responded in various ways: (1) maintaining their grip on the letter market in addition to having introduced *hybrid mail* solutions involving digital and physical mail (Figure 1), (2) developing their logistics expertise to accommodate growth in the parcel business, and (3) diversifying into other business areas (finance, mobile telecommunications) (Sund, 2011).

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Figure 1 about here  
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The postal industry offers a rich context to explore the organizational themes that surround business model innovation. The histories of the Danish, Portuguese and Swiss posts selected for this paper stretch back centuries. The Portuguese Post was established in the 1520s, the Danish post dates back to 1624 and the Swiss Post to 1675. As government agencies, their core business model dates back to 1837 when the uniform postage and the payment by the sender instead of the recipient were introduced, relatively unaltered until now.

The 1990s saw the first major signs of change for the three operators studied. The telecommunications arms of the three companies were all divested, liberalized and privatized. The expectation was that the posts should become profitable in preparation for a later possible sale by government, which pushed these posts to seek opportunities for diversification and to improve efficiency. Following the 1997 EU Directive 97/67/EC, the first of a series that defined

a new liberalized market, these posts started exploring alternative business models.

### **Business model exploration and exploitation**

The literature mostly offers a descriptive account of entirely new (and successful) business models brought to life by entirely new organizations (e.g., Afuah & Tucci, 2001), rather than analyzing the process by which established organizations manage to infuse life to new business models. Our study of the postal industry unveils two stages within business model innovation: namely, business model *exploration* and business model *exploitation*, which posts followed to effectively react to face the evolving threats to their established business model:

As one postal manager clearly portrayed his experience: *“There’s a shift of paradigm [...] we have not only to reinvent our traditional business, because we can no longer come to you offering solutions and services only for the physical part of the business, we have to reinvent ourselves, we have to create new services, new sources of revenue and so on.”* Our interviews suggest significantly more managerial and organizational cognitive uncertainty at different stages of business model innovation than is suggested in the literature.

During initial stages of innovation, very little, if anything, was known or understood by the postal organizations regarding *future* business models. All three posts decided to explore opportunities in the digital space (examples of actual innovations that resulted from this exploration can be found in Figure 1), but the efforts at business model innovation in this context were driven by necessity, not by vision. Furthermore, there was no roadmap or initial idea that launched the process.

In the words of one manager: *“we need to modify our business without necessarily exactly knowing how to earn money in the future.”* The three posts all proactively initiated their process of new business model exploration around the turn of the century, albeit without a clear picture of what the new end products or new services would be, who the users would be, how they would produce, or how to create or extract value. In a sense, *all* elements of the future business model appear to have been unknown at the beginning.

Uncertainty continued for years even after the introduction of new business models, as a manager discussed the innovations introduced more recently: *“we don’t exactly know how it will look in ten years from now.”* This implies that the posts needed to engage in an ongoing process of experimentation and effectuation. We therefore posit that there are indeed two distinct stages in business model innovation—exploration and exploitation—both bearing uncertainty.

Below, we focus our attention further on the stage of business model exploration. In the exploratory stage of business model innovation, our analysis led us to identify four main organizational issues: (1) the organizational conflicts surrounding the use of scarce resources shared between old and new business models, (2) the cognitive limitations in the face of a persistent dominant logic, (3) issues of organizational (re)design focused on structure, and (4) the sourcing and development of new capabilities.

### **Organizational conflicts for scarce resources shared between old and new business models**

The postal industry case supports that there may be conflicts with an existing business model or with the underlying configurations that support it (Amit & Zott, 2001; Christensen, 1997). One such challenge is linked to missing future revenue estimates in the early stages of exploration. The exploratory efforts require an investment in time and resources for an outcome

that is not just uncertain, but in the early stages entirely unknown. Consider the business model innovations depicted in Figure 1, by contrasting each to the established baseline model. In this case, hybrid mail allows business customers to outsource the printing of documents to be mailed to the postal operator, while it offers all customers to have their mail items scanned by the postal operator.

New business models build on important organizational resources of the original (traditional) model. The original model already strained by tensions of its business environment, the expanded workload put into some of the existing resources (e.g., distribution centers) only makes the strain more acute. As such, the existing organization may not perceive any benefits to this use of resources to enable new concurrent *unproven* models to emerge. Especially when the focus is on optimization, cost cutting and the downsizing of the workforce in the core business.

One manager told us: *“it is not a big revenue generating business for the company, and that’s the weak part in knowing that the company is switching from the physical to the digital.”* The stories of these three posts confirm the particular challenge to business model innovation pointed out by Christensen (1997), whereby established technologies may be given more resources since they appear more profitable, at least in the short term

### **Organizational cognition limitations in the face of a persistent dominant logic**

A particular set of organizational issues are linked to the cognitive activities of sense-making and sense-giving that naturally accompany the process of business model innovation. Chesbrough and Rosenbloom (2002) argue that the success of established business models may influence the information flow that gets routed into or filtered out of decision making about business model designs. Thus, the dominant logic of the existing business model directs the way executives perceive new ideas for business models (Bettis & Prahalad, 1995; Chesbrough, 2010).

In the case of the postal organizations examined in this paper, there was evidence of the importance of the dominant logic as a barrier. As one manager stated: *“[The] more I work at the post, the more I am attached to [a] conclusion. It is that we have to make an effort to think outside the box they put us in when I started working for this corporation. Because they format our mind: “the business of the post is this” and so on. And at a certain time you realize that I am thinking the way those guys want me to think.”*

Cognitive limitations have to be overcome (i) to know what the right business model ought to be, or (ii) to begin experimenting with their business model. A manager stated: *“We need to change our minds, how we do business and how we develop our business.”* Once such barriers are overcome, sense-making takes place to enact new shared meaning (the new business model) which is then communicated widely across the organization. A need to “change minds” within the wider organization emerges then through sense-giving activities (internal communication).

### **Organizational (re)design issues with a focus on structure**

Organizational design accompanying new business models is one critical aspect emphasized by all three organizations. A manager stated: *“When we started this, ten years ago, we discussed a lot how to organize this.”* New business models have to co-exist and grow alongside the (stagnant) traditional business model—nevertheless the main source of income. Key decisions needed to be made to position new business models within the organizational

structure. In line with Chesbrough (2010), a process of experimentation (Thomke, 2003) and effectuation (Sarasvathy, 2008), combined with top leadership involvement (Doz & Kosonen, 2010), is necessary.

In the words of one manager: *“We constantly learn and modify also the way how we organize ourselves.”* In all three posts a new business unit was created to house the new business models being explored, effectively shielding the innovation process from the rest of the organization: *“We needed to keep this a bit separate from the ordinary business. Not too separate. ... So we decided to establish a business unit. That was one way of handling a kind of small new-biz idea and small new-biz organization, but still keep it within the company.”*

However, some innovations may be seen as either complementary to (see Figure 1: model 1 and model 2), or potential substitutes for the core business (see Figure 1: model 3), and some degree of cooperation with the core business was essential to establish (see Figure 1: model 1 and model 2). A dynamic tension arises between positioning the unit sufficiently close to the top management to have strong support and protection from the top, but also sufficiently far from the top management to maintain a separate identity and culture.

### **Organizational capabilities, sourcing and development**

In all three posts, strategic acquisitions appear to have played a key role in building rapidly the capabilities necessary to create business model innovations. A manager described how *“we needed competences we didn’t have... we need the skills from people who have competences from the IT side of the business world. They need to have a feeling about data, ... different kind of services, software, and also to some extent integration into existing businesses.”*

Complementarity with existing capabilities was an important consideration. All three posts attempted to leverage the established postal brand when approaching new customers: *“it would have been impossible for posts to set up this operation if all society, and corporations that in most cases compete against each other, did not trust [the post].”* Another referred to an important mix between *“old credibility and new competences,”* and stated that the post was now in a position to *“help you no matter where you go, physical or digital or other ways.”*

The posts had all experimented to some degree with involving the customer; in particular with the government as a large customer for whom new services can be developed. However, they found that more could be done in this sense: *“we could... be better in taking the customer inside of our innovation project. The customer is still kind of outside of our innovation process.”* They saw potential of open innovation approaches, in particular those that involve the end user (Bogers, Afuah, & Bastian, 2010; Huff, Moeslein, & Reichwald, 2013).

## **CONCLUSION**

Business model innovation is gaining momentum as a field of academic inquiry, and in practice as a purported source of competitive advantage in a relentlessly changing world. The literature requires an expanded paradigm to explain how competitive advantage can be effectively derived from organizational competences in business model innovation. In the context of incumbent firms, where most resources are engaged towards optimizing extant processes, the organizational aspects of business model innovation take center stage.

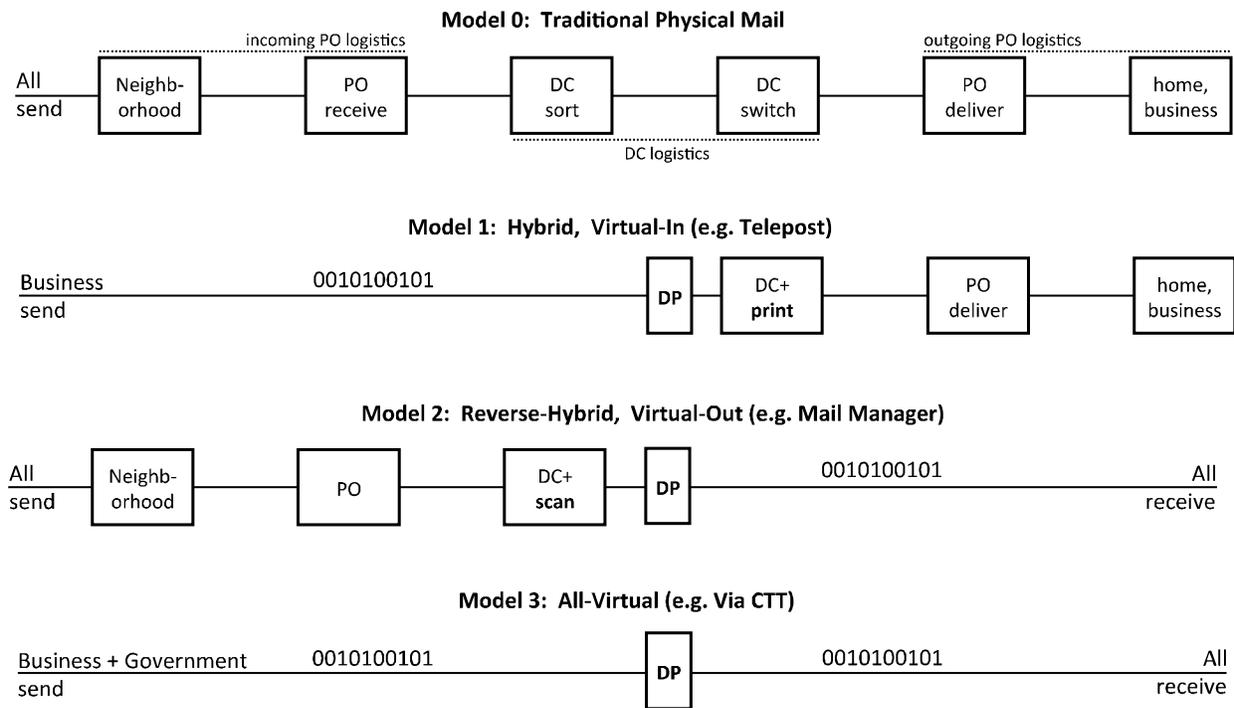
Our findings point to evidence of the existence of business model *exploration* and *exploitation* stages in the business model innovation process. This paper identifies four key areas

of organizational study from an inductive case study of the postal industry that have not received much attention yet in the growing literature on business model innovation. Besides being important areas for future conceptual research, these findings also highlight attention points for managers seeking to systematically organize their firm’s business model innovation processes.

While we base our findings on a single industry, we expect similar processes and patterns to occur in other mature industries that go through a disruptive change that challenges the underlying assumptions of established business models. Organizations embarking in a process of business model innovation should face the organizational issues we identified. Future research will determine how different external factors influence the business model innovation process, and what new specific issues are relevant in different organization types and industries.

**FIGURE 1**

**Three Business Model Innovations and New Organization Configurations**



Notes:

*DP = Digital Processing, PO = Post Office, DC = Distribution Center, All = Personal Mail+Business+Government*

*Hybrid mail refers to new service offerings of postal operators, where a digital file is turned into a mail item (Virtual-In), or a mail item into a digital file (Virtual-Out).*

**REFERENCES AVAILABLE FROM THE AUTHORS**